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The Whelps of the Tigress; A Resume of the National Banking System

By
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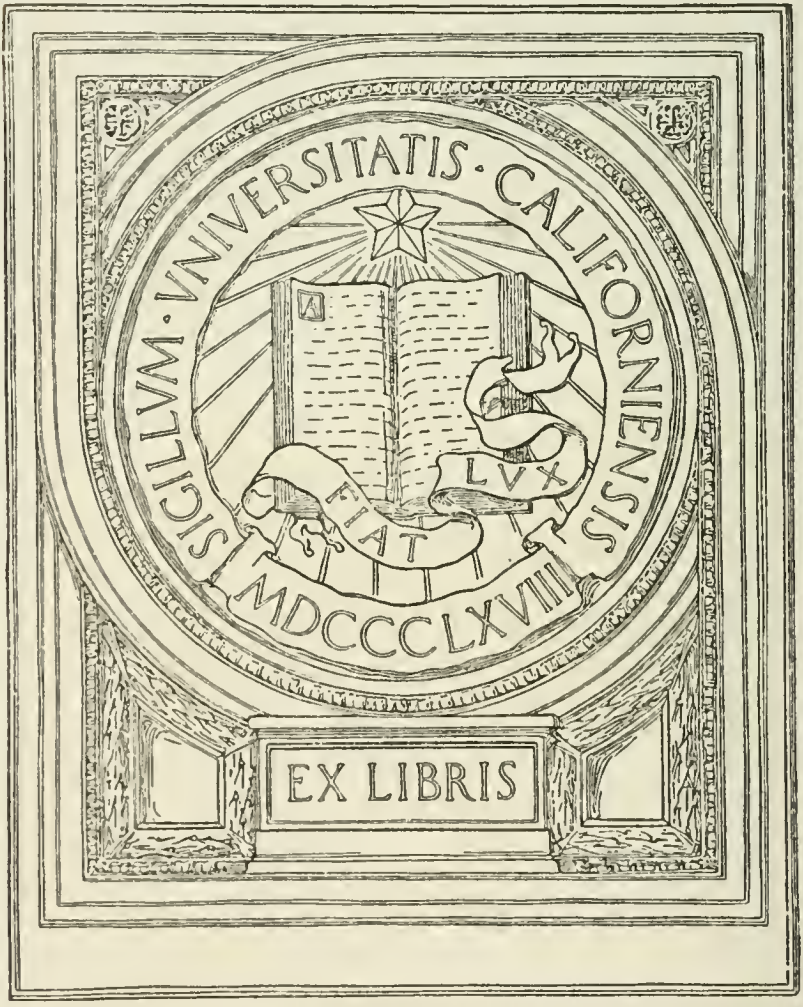

THE WHELPS... OF THE TIGRESS.

A RESUME

—OF—

The National Banking System,

By R. M. SMITH.

"We have driven the tigress to the jungles, but I fear that some day she will return, bringing her whelps with her."

THOMAS H. BENTON.

JOHN H. WILL
OLD BOOKS
506 11th St. N
WASHINGTON,

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OUR FATHERS, when they forbade entail, and provided for the distribution of estates, thought they had erected a barrier against the money power that ruled England. They forgot that money could combine; that a moneyed corporation is like the Papacy, a succession of persons with a unity of purpose. Now as the land of England in the hands of thirty thousand land-owning families has ruled it for six hundred years, so the corporations of America mean to govern. The survival of Republican institutions here depends upon a successful resistance of this tendency. The only hope of any effectual grapple with the danger lies in rousing the masses, whose interests lie permanently in the opposite direction."

From WENDELL PHILLIP'S speech at Music Hall, Boston, October 31, 1871.

JOHN H. WILLS
RARE BOOKS
WASHINGTON, D.C.

PREFACE.

In the following pages the writer has sought simply to offer a sketch of the origin and development of the national banking system, and a brief review of certain objections which in the light of experience with its practical workings, and with the operation of former kindred systems, may be urged against it.

In the execution of this purpose it has seemed advisable to use, as far as possible, the language of such authorities as would be recognized as worthy of respectful consideration.

Believing that the policy of permitting the control over the circulating medium of the country to be vested to any considerable extent in banks of issue is unalterably opposed to the equitable distribution of wealth, the writer sends forth this little treatise in the hope that it may help some of his countrymen to understand that "the best banking system the world ever saw" is "a cunningly devised scheme to fertilize the rich man's field by the sweat of the poor man's brow."

RIAL M. SMITH.

AKRON, O., October 10, 1894.

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CHAPTER I.

The Origin of the National Banking System.

The national banking system had its origin in the civil war.

At the beginning of the war the currency of the country consisted in the gold and silver coinage of the United States, and the bank note issues of State banks. The amount of money in the country was manifestly inadequate to the needs of war. The financial condition of affairs at this time is thus described in Hay and Nicolay's "Abraham Lincoln, a History," vol. 6, page 230:

"It was apparent that the volume of currency in the country was not sufficient for the enormous requirements of the public expenditure. The banks could neither pay coin to the Government for bonds, nor dispose of them to their customers for specie. The weaker institutions were already tottering, and the stronger ones feared a crisis which would result in universal disaster. They met in convention on the 27th day of December, 1861, and agreed upon a suspension of specie payments which took place the following day. The Government necessarily followed the example of the banks. * * * In the world of finance, as well as in the world of politics, it was generally agreed that the only resort of the Government was paper money."

Congress had been called in extra session in July, 1861, for the purpose of devising ways and means of carrying on the war. During this session of Congress two loan acts were passed, one of which was approved on the 17th day of July, and the other on the 5th day of August.

Berkey in his work on the "Money Question," describes these acts as follows:

"By the act of July 17th, the Secretary of the Treasury was authorized to borrow $250,000,000, for which he was authorized to issue coupon bonds or registered bonds or Treasury notes in such proportions of each as he might deem advisable. The bonds were to bear interest not exceeding

seven per cent. per annum, payable semi-annually, and to run for 20 years, when they would be redeemable at the pleasure of the United States; and the Treasury notes were to be issued in denominations of not less than $50, payable three years after date, with interest at 7 3-10 per cent., payable semi-annually, and exchangeable at any time for twenty-year six per cent. bonds. Or at his option the Secretary of the Treasury might issue $50,000,000 of the above loan in Treasury notes, payable on demand, in denominations of not less than ten dollars each, without interest, and made payable for salaries and other dues from the United States Treasury (afterwards known as old demand notes); or he might issue Treasury notes payable in one year from date, bearing interest at 3 65-100 per cent., exchangeable at any time in sums of $100 or upwards for three-year Treasury notes bearing 7 3-10 per cent. interest.

"By the act of August 5th, which was supplementary to the act of July 17th, the Secretary of the Treasury was authorized to issue bonds bearing interest at six per cent. per annum, payable after 20 years, which, in denominations of not less than $500, might be exchanged for Treasury notes bearing 7 3-10 per cent. interest. The act of July 17th, fixing the denomination of Treasury notes without interest (demand notes) at not less than ten dollars was modified so as to fix the limit at not less than five dollars, and these (demand) notes were made receivable in payment of public dues. By the sixth section of this act the Sub-Treasury act of 1846 was 'suspended so far as to allow the Secretary of the Treasury to deposit any of the moneys obtained on any of the loans now authorized by law to the credit of the Treasurer of the United States in such solvent specie-paying banks as he may select.'"

Ten million dollars more of the demand notes were authorized to be issued by an act of Congress approved February 12, 1862; and by act of March 17, 1862, these demand notes, $60,000,000 in all, in addition to "*being receivable in payment of duties on imports*," were made "lawful money and a legal tender in like manner and for the same purposes as the notes authorized by the act approved February 25, 1862."

It may be worth while at this point to call the reader's at-

tention to the fact that these demand notes after they were made a full legal tender circulated at par with gold even when gold had reached a premium of 185 per cent. over other paper issues of the Government. The reason for the *depreciation* in other currency issues will be found in the laws providing for such issues, and will be discussed later on.

In his first report to Congress in December, 1861, Secretary of the Treasury Chase recommended the establishment of a national banking system upon substantially the same plan as that afterward adopted. His avowed purpose in making this recommendation was to establish a currency of uniform value throughout the country to take the place of the varying and uncertain State bank currency then in existence. He lived, however, to express his regrets at having been instrumental in establishing the present system.

At the opening of the regular session of Congress in December, 1861, a sub-committee of the Committee of Ways and Means was appointed to consider the recommendations of Secretary Chase in regard to the "proposed national bank currency, the issue of Treasury notes and bonds, and the mode of raising means to carry on the war." This subcommittee, consisting of Messrs. Spaulding, Hooper and Corning, at once went to work and prepared a national bank currency bill of sixty sections, one section of which provided for an issue of legal tender Treasury notes. The bill as prepared was not introduced at this time, however.

Mr. Spaulding says in his "Financial History of the War" that, upon more mature consideration and examination, he came to the conclusion that the bank bill of sixty sections could not, with the State banks opposed to it, be passed through both houses of Congress for several months, and that so long a delay would be fatal to the Union cause. He therefore changed the legal tender section intended originally to accompany the bank bill into a separate bill, with

alterations and additions, and on his own motion introduced it into the House by unanimous consent on the 30th of December, 1861.

This bill authorized the Secretary of the Treasury "to issue on the credit of the United States $100,000,000 of Treasury notes, not bearing interest, payable generally, without specifying any place or time of payment, and of such denominations as he may deem expedient, not less than five dollars each; and such notes and all other Treasury notes payable on demand not bearing interest, that have been heretofore authorized to be issued, shall be receivable for all debts and demands due to the United States, and for all salaries, dues, debts and demands owing by the United States to individuals, corporations and associations within the United States; and shall also be lawful money, and a legal tender in payment of all debts, public and private, within the United States, and shall be exchangeable in sums not less than $100 at any time at their par value at the Treasury of the United States for any of the six per cent. twenty-year coupon or registered bonds which the Secretary of the Treasury is now, or may hereafter be authorized to issue; and such Treasury notes shall be received the same as coin, at their par value, in payment for any bonds that may be hereafter negotiated by the Secretary of the Treasury; and such Treasury notes may be reissued from time to time as the exigency of the public service may require."

Active opposition to this bill on the part of the bankers of New York, Boston and Philadelphia was at once manifested. They sent representatives to Washington and on the 11th of January, 1862, a conference was held at the office of the Secretary of the Treasury between these representatives of the banks and the Committee of Ways and Means of the House. At this meeting a plan of raising money was submitted by the banks, which contained the following provisions:

1. A bill to raise $125,000,000, over and above duties on imports, by taxation.

2. Not to issue any *demand* Treasury notes except those already authorized.

3. Issue $100,000,000 Treasury notes at two years, in sums of five dollars and upwards, to be receivable for public dues to the Government, *except duties on imports.*

4. A suspension of the Sub-Treasury act so as to allow the banks to become depositaries of the Government of all loans, and to check on the banks from time to time as the Government may want money.

5. Issue six per cent. twenty-year bonds to be negotiated by the Secretary of the Treasury, *and without any limitation as to the price he may obtain for them in the market.*

6. That the Secretary of the Treasury be empowered to make temporary loans to the extent of any portion of the funded stock authorized by Congress, with power to hypothecate such stock, and if such loans are not paid at maturity *to sell the stock hypothecated for the best market price that can be obtained.*

The conference adjourned without coming to any understanding.

On the 15th of January another conference was held "by the bank delegates and other persons connected with Mr. Chase," and the result was an approval of the secretary's plan for raising money and launching the national bank system. The following plan was matured and adopted.*

1. The banks will receive and pay out the United States notes authorized by act of July last freely, and sustain in all proper ways the credit of the Government.

2. The Secretary of the Treasury will within the next two weeks, in addition to the current daily payments of $15,000,000 in United States notes, pay the further sum of

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* See Bolle's "Financial History of the United States, 1860–1885," pp. 48, 49. As frequent mention will be made of this authority it may be worth while to state that the author of this most exhaustive work is an ardent supporter of the national banking system. He describes himself as the "editor of the *Bankers' Magazine*," and dedicates the above volume to "George D. Baker, President of the First National Bank of the City of New York."

at least $20,000,000 in seven-thirty bonds to such public creditors as desire to receive them, and thus relieve the existing pressure upon the community.

3. The issues of United States *demand notes not to be increased* beyond the $50,000,000 authorized by the act of last July, but it is desired that Congress should extend the provisions of the existing loan acts passed at the extra session in July, so as to enable the Secretary to issue in exchange for *United States demand notes*, or in payment of creditors, notes payable in one year bearing 3 65-100 per cent. interest, and convertible into seven-thirty three year bonds; or to borrow under the existing provisions to the amount of $250,000,000 or $300,000,000.

4. It is thought desirable that Congress should enact the National currency bank bill, embracing the general provisions recommended by the Secretary in his annual report.

5. It is expected that this action and liquidation will render the making of the United States *demand notes a legal tender, or their increase beyond the $50,000,000 authorized in July last unnecessary.*

On the 22d of January an additional section of the legal tender bill was reported to the House by the Ways and Means Committee. This section authorized the Secretary of the Treasury to issue, on the credit of the United States, coupon or registered bonds to an amount not exceeding $500,000,000, and redeemable at the pleasure of the Government after twenty years from date, and bearing interest at six per cent. per annum, payable semi-annually, to enable the Secretary of the Treasury to fund the Treasury notes and floating debt. The amended bill containing this additional section passed the House on the 6th day of February. Before passing, however, the amount was increased to $150,000,000, and it was provided that $50,000,000 of said notes were to be in lieu of the demand notes issued under the act of July 17th, "which said demand notes shall be taken up as fast as practicable, and the notes herein provided for substituted for them." Thaddeus Stevens, who

was chairman of the Ways and Means Committee, closed the debate in the House on this bill in a speech from which the following extract is taken:

"The Secretary of the Treasury, in his report recommended a scheme to produce a uniform national currency and furnish a market for Government bonds. It proposes that the banks shall receive their circulation from the Government to the amount of Government bonds pledged with the Treasury for their security, and that no more notes should be issued than the par value of such bonds, and should be redeemed by the banks. * * * How would that be any better than the Government's own notes? The security of the Government is equal to that of the banks, and would give as much currency. *To the banks I can see its advantage.* They would have the whole benefit of the circulation without interest, and at the same time would draw interest on the Government bonds from the time they got the notes. Now it is very plain that if the United States issued those notes *direct*, they (the United States) would have the benefit of the whole circulation. * * * I flatter myself that I have demonstrated that such notes made a legal tender and not issued in excess of the demand will remain at par and pass in all transactions, great and small, at the full value of their face; that we shall have one currency for all sections of the country, and for every class of people, the poor as well as the rich. * * * Mr. Chairman, let me say in conclusion that unless this bill is to pass with the legal tender clause in it, it is not desirable to its friends, or to the administration, that it should pass at all. * * * If this bill shall pass, I shall hail it as the most auspicious measure of this Congress; if it should fail, the result will be more deplorable than any disaster which could befall us."

This bill passed the House, and was reported from the Finance Committee to the Senate on the 10th day of February, 1862, *with the following amendments thereto:*

1. That the legal tender notes should be receivable for all claims and demands against the United States of every kind whatever, "*except for interest on bonds and notes which shall be paid in coin.*"

2. That the Secretary might dispose of United States

bonds at the market value thereof for coin *or Treasury notes.*

3. Authorizing deposits in the sub-treasuries at five per cent. for not less than thirty days to the amount of $25,000,000, for which certificates of deposit might be issued.

4. An additional section providing that all duties on imported goods, and proceeds of the sale of public lands be set apart to pay coin interest on the debt of the United States, and providing for a sinking fund.

On the 14th of February the bill as amended was passed by the Senate by a vote of 30 to 7, and was returned to the House. On the 19th the bill as amended by the Senate being again before the House for consideration, Mr. Spaulding opened the debate thereon in a speech in the course of which he said:

"Mr. Chairman, I desire especially to oppose the amendments of the Senate which require the interest on bonds and notes to be paid in coin semi-annually, and which authorizes the Secretary of the Treasury to sell six per cent. bonds at the market price for coin to pay the interest. The Treasury note bill as reported first from the Committee of Ways and Means as a necessary war measure was simple and perspicuous in its terms and easily understood. It was so plain that everybody could understand that it authorized the issue of $150,000,000 of legal tender notes to circulate as a national currency among the people in all parts of the United States, and that they might at any time be funded in six per cent. twenty-year bonds. The passage of the measure in this House was hailed with satisfaction by the great mass of the people all over the country. I have never known a measure receive a more hearty approval from the people. Nearly every amendment to the bill since it was matured has rendered it more complex and difficult of execution. I regret to say that some of the amendments of the Senate render the bill incongruous, and tend to defeat its great object, namely, to prevent all forcing of the Government to sell its bonds in the market to the highest bidder for coin. It might be very pleasant for the holders of the 7 3-10 per cent. Treasury notes and 6 per cent. bonds to receive their interest in coin semi-annually, but very disastrous to the Government to sell its bonds at ruin-

ous rates of discount every six months to pay them gold and silver, while it would pay only Treasury notes to the soldier, sailor and all other creditors of the Government. Why make this discrimination? Who asks to have one class of creditors placed on a better footing than another class? Does the sailor, the farmer, the mechanic, the merchant ask to have any such discrimination made in their favor? No, sir; no such unjust preference is asked for by this class of men. They ask for the legal tender note pure and simple. They ask for a national currency which shall be of equal value in all parts of the country. They want a currency that shall pass from hand to hand among all the people in every state, county, city, town and village in the United States. They want a currency secured by adequate taxation upon the whole property of the country which will pay the soldier, the farmer, the mechanic and the banker alike for all debt due. They ask that the Government shall stand upon its own responsibility, its own rights, and exert its vast powers, preserve its own credit, and carry us safely through this gigantic rebellion in the shortest time and with the least possible sacrifice."

Mr. Pendleton, of Ohio, offered an amendment to the Senate amendment requiring the interest on bonds and notes to be paid in coin, which provided "that the officers, soldiers, seamen and marines engaged in the military service of the United States shall also be paid in coin;" but it was not agreed to.

On the 20th of February Thaddeus Stevens closed the debate on the amended bill with a speech in which he said:

"Mr. Speaker, I have but few words to say. I approach the subject with more depression of spirits than I ever before approached any question. No personal motive or feeling influences me. I hope not at least. I have a melancholy foreboding that we are about to consummate a cunningly devised scheme which will carry great injury and great loss to all classes of people throughout the Union, except one. With my colleague, I believe that no act of legislation of this Government was ever hailed with as much delight throughout the whole length and breadth of this Union by every class of people as the bill we passed and sent to the Senate. Congratulations from all classes—

merchants, traders, manufacturers, mechanics and laborers—poured in upon us from all quarters.

"It is true there was a doleful sound came up from the caverns of bullion brokers, and from the saloons of the associated banks. Their cashiers and agents were soon on the ground, and persuaded the Senate with but little deliberation to mangle and destroy what it had cost the House months to digest, consider and pass. They fell upon the bill in hot haste, and so disfigured and deformed it that its very father would not know it. Instead of being a beneficent and invigorating measure, it is now positively mischievous. It now creates money and by its very terms declares it a depreciated currency. It makes two classes of money, one for the banks and brokers, and another for the people. It discriminates between the rights of different classes of creditors, allowing the rich capitalist to demand gold, and compelling the ordinary lender of money on individual security to receive notes which the Government had purposely discredited."

The House refused to agree to certain of the Senate amendments, and a conference committee was appointed consisting of Messrs. Fessenden, Sherman and Carlisle of the Senate, and Messrs. Stevens, Horton and Sedgwick of the House. This committee made some alterations in the bill, among which was the insertion of a provision that "duties on imports should be paid in coin." The insertion of this provision was secured by Mr. Stevens for the purpose of preventing the Government from being forced to sell its bonds in open market for coin with which to pay the interest on the public debt. The bill having been referred back to the House and Senate passed both, and was approved by the President on the 25th of February, 1862.*

Judge Kelley, in a speech delivered at Philadelphia on the 15th of January, 1876, in referring to the passage of this act, said: "I remember the grand old commoner

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*An additional issue of $150,000,000 of such Treasury notes was authorized by an act passed July 11, 1862.

(Thaddeus Stevens) with his hat in his hand, and his cane under his arm, when he returned to the House after the final conference and shedding bitter tears over the result. 'Yes,' said he, 'we have had to yield. The Senate was stubborn. We did not yield until we found that the country must be lost or the banks be gratified, and we have sought to save the country in spite of the cupidity of its wealthier citizens.'"

Although the moneyed classes did not succeed in forcing the sale of Government bonds in the market every six months, as they sought to do, in order that they might buy the bonds at immense discounts, they nevertheless accomplished the same purpose by thus depreciating the value of the currency with which these bonds were purchasable *at par*. The Treasury notes issued under this, and other similar acts depreciated in value for the simple reason that they were not receivable in payment of duties upon imports. The fact that the *demand notes* (of which $60,000,000 were issued as before stated), did *not* depreciate, but remained always at par with gold, was due solely to the fact that the demand notes *were receivable for such duties*, in addition to their legal tender qualities in other respects.

The evidence upon this point is conclusive, if any evidence were needed.

Mr. George S. Coe, president of the American Exchange Bank of New York, in describing at a meeting of the American Bankers' Association in 1877, the consequences of Secretary Chase's action in issuing these demand notes, said: "These notes were irredeemable from the start. The Treasurer had no money except that which the banks furnished, and of course it was impossible for him to issue a redeemable note."*

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*Bolle's "Financial History," p. 34.

The following illustration from the same authority is worth reproducing:*

"About the time of the suspension of coin payments, a wealthy New Yorker came into the possession of a large sum, approximating to one million of dollars, in *demand notes*. He offered them for deposit in a leading bank in New York, the officers of which, however, refused to receive them in the ordinary course of their business, or in any other way than as a special deposit. Having no alternative, the gentleman reluctantly consented. *The demand notes being receivable for customs, the same as coin, kept pace pari passu with the advance in the price of coin; and when the depositor in the bank withdrew his deposit, demand notes were worth nearly or quite one hundred and fifty per cent. premium, measured in legal tenders.*"

That the currency of the Government was purposely depreciated to the utmost possible extent by the bankers and gold gamblers, is further evidenced by the following statements of Hugh McCulloch in his Second Report as Comptroller of the Currency:

"Hostility to the Government has been as decidedly manifested in the effort that has been made in the commercial metropolis of the Nation to depreciate the currency as it has been by the enemy. Immense interests have been at work all over, and concentrated in New York to raise the price of coin."

The attitude of the banks in this respect is thus described in Bolle's "Financial History," page 37:

"Many banks doubtless desired to furnish the paper circulation needed by the country, and looked with disfavor on any attempt of the secretary to invade their field, and declined to receive the Government notes in order to maintain their position more securely."

The hostility of the banks to the demand notes is indicated by the following extract from a letter from Albert Gallatin to Secretary Chase, bearing date Sept. 12, 1861,

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*Bolle's "Financial History," p. 30.

and published in vol. 16 of the *Bankers' Magazine*, page 354:

"When the proposed system of raising means by the banks was reported by a committee of ten, they were almost unanimously in favor of affixing to it a condition that the Government should not issue demand notes. That condition was only yielded from a reluctance to endanger or embarrass your appeal in so solemn a crisis, and because of your remonstrance against being compelled to give an official pledge against the use of a legal enactment, and still further because of your assurance that it would only be resorted to when other means of raising money should fail. The banks therefore feel the most implicit confidence that these issues will be confined to a very inconsiderable sum, and not be extended beyond a small amount for which a specific sum will be pledged."

CHAPTER II.

The Origin of the National Banking System.—Continued.

About this time a circular known as the "Hazzard circular" was distributed among the bankers and capitalists of the country by an agent of London capitalists.

This circular contained the following statements:

"*Slavery is likely to be abolished by the war power and chattel slavery destroyed. This, I and my European friends are in favor of, for slavery is but the owning of labor and carries with it the care of the laborer. While the European plan led on by England is for capital to control labor by controlling wages. This can be done by controlling the money. The great debt that capitalists will see to it, is made out of the war must be used as a means to control the volume of money. To accomplish this the bonds must be used as a banking basis. We are now waiting for the Secretary of the Treasury to make the recommendation to Congress. It will not do to allow the greenback as it is called, to circulate as money any length of time, as we cannot control that.*"

On December 4th, 1862, Sec. Chase submitted his second annual report in which he again recommended the establishment of a national banking system. In concluding this report, the Secretary said: "The general views of the Secretary may therefore be thus briefly summed: He recommends that whatever amount may be needed beyond the sum supplied by revenue and through other indicated modes, be obtained by loans, without increasing the issue of United States notes beyond the amount fixed by law, unless a clear public exigency shall demand it. He recommends also the organization of banking associations for the improvement of the public credit, and for the supply to the people of a safe and uniform currency, and he recommends no change in the law providing for the negotiation of bonds except the necessary increase of amount, and the repeal of the absolute restriction to market value, and of the clauses authorizing convertibility at will."

On the 8th day of January 1863 a bill "To provide ways and means for the support of the Government" (afterwards known as the $900,000,000 loan act) was reported from the Committee of Ways and Means to the House.

After various amendments the bill passed both branches of Congress, and became a law on the 3d day of March 1863. Mr. Spaulding in his "Financial History of the War," page 186, describes this act as follows:

"1. The first section authorizes a loan of $300,000,000 for the then current year, and $600,000,000 for the then next fiscal year, and to issue bonds therefor at not less than ten nor more than forty years, at not exceeding six per cent. interest in coin, not exceeding in all $600,000,000.

"2. By section second of the same act the secretary in lieu of an equal amount of said bonds, was authorized to issue $400,000,000 of Treasury notes, bearing interest not exceeding six per cent., payable in lawful money, which notes, payable at periods expressed on their face, might be made a legal tender at their face value.

"3. By the third section $150,000,000 in amount of United States notes made a legal tender, might be issued. The restriction in the sale of bonds to *market value* was repealed. And the holders of United States notes issued under former acts were required 'to present them for the purpose of exchanging them for bonds as therein provided on or before the 1st of July, 1863, and thereafter the right to exchange the same shall cease and determine.'

"4. This section imposed a tax of one per cent. each half year on a graduated scale of *State bank circulation* according to the capital stock of each bank."

The way having been thus prepared for the successful inauguration of the national banking scheme by legislation tending to make the bonds needed for its basis easily and cheaply obtainable, the national bank bill drawn by Mr. Spaulding in December, 1861, was reported with certain alterations from the Finance Committee to the Senate by Mr. Sherman on the 2d day of February, 1863. The text of this bill, consisting of more than sixty sections, is too long for insertion here.

The following were the more important provisions:

Any five or more persons could form an association having a capital stock of not less than $50,000, nor less than $100,000 in cities of a certain population, and upon delivering to the Treasurer of the United States interest-bearing bonds to an amount not less than one-third of the capital stock paid in, which must be not less than thirty per cent. of the entire capital stock, were entitled to receive circulating notes equal in amount to 90 per cent. of the current market (afterwards changed to par) value of the bonds deposited. These notes were to be receivable for all Government dues, except duties on imports, and payable on Government debts, except for interest on bonds. In lieu of all taxes on circulation or bonds, the banks were to pay one per cent. per annum semi-annually on their circulation. They were to conform to the laws of the States in fixing

their rates of interest. They were to keep on hand in lawful money of the United States at least 25 per cent. of their notes and deposits and were to redeem their circulation at the place of issue. The amount to be issued was fixed at $300,000,000, one-half of which was to be issued to banks in States and territories according to their population, the other half to be distributed with regard to the existing bank capital, business and resources of each State. A bureau of currency was to be established in the Treasury Department and administered by a Comptroller and proper subordinate officers. The Comptroller was to be appointed by the President with the consent of the Senate, and hold office five years. The banks were to make quarter yearly reports of their condition to the Comptroller. The Secretary of the Treasury was authorized "to employ any of such associations doing business under this act as depositories of the public moneys, except receipts from customs, whenever in his judgment the public interest will be promoted thereby."

The debate on this bill was very brief. In the House the subject had been fully discussed when the $900,000,000 loan act was pending.

In the Senate Mr. Collamer, of Vermont, made the principal speech in opposition to the bill. In the course of his remarks he especially insisted that the objection which had been urged against the continuance of the United States Bank that it furnished too powerful a political agency in the hands of unscrupulous and designing politicians, applied with tenfold greater force to the system proposed in the bill. The bill passed the Senate by a vote of 23 to 21, and the House by a vote of 78 to 64. It was signed by the President and became a law on the 25th of February, 1863.

The principal acts afterward passed supplementary to and amendatory of this act are the following:

At the next session of Congress it was enacted that for the purpose of securing their circulation and deposits national banks outside of nineteen of the principal cities of the Union named in the act, and known as "reserve cities," should keep 15 per cent. of their circulation and deposits on hand, three-fifths of which, however, might be deposited with designated banks in the reserve cities, which latter banks should redeem the circulation of country banks depositing with them; that banks in the reserve cities (outside New York) should keep 25 per cent. of their circulation and deposits on hand, one-half of which might, however, be deposited with designated banks in New York, which New York banks should in turn redeem the circulation of the banks in the reserve cities depositing with them, and that banks in New York should keep 25 per cent. of their circulation and deposits on hand.

March 3, 1865, it was enacted that in forming national banks a preference should be given to those State banks not having over $75,000 capital which applied before the 1st of the following July; and that a tax of ten per cent. should be imposed on all State bank notes after July 1, 1866.

In 1874 a law was passed which provided that the bank circulation should be redeemed by the United States Treasurer at Washington. For this purpose banks were required to deposit with the Treasurer five per cent. of their circulation in lawful money of the United States, which was to be counted a part of their lawful reserve. The same law also provided that the banks might withdraw their notes from circulation in whole or in part by depositing them in sums of not less than $9,000 with the United States Treasurer, when they would be allowed to take up the bonds deposited to secure them.

In 1875 the restriction on the amount of bank notes which might be issued was removed, and the Secretary of the

Treasury was required to retire legal tender notes to the amount of 80 per cent. of the amount of national bank notes thereafter issued, until the amount of legal tender notes should be reduced to $300,000,000. This latter provision for the retirement of the greenbacks was repealed in 1878, leaving the amount of greenbacks then and now outstanding at $346,681,016.

Under the act of 1863 national banks were authorized to do business for a period of twenty years only, so that in 1883, without further legislation, those banks organized in 1863 would have been obliged to reorganize or retire from business. In 1882, therefore, an act was passed authorizing the extension of the bank charters for another period of twenty years. In speaking of this act Bolles says in his "Financial History," pages 308, 309:

"The first provision of the bill authorized the banks to continue for another period of twenty years provided the shareholders owning not less than two-thirds of the capital stock consented. The opponents of the banks maintained that the proposed legislation was unnecessary because the banks when their charters expired could liquidate and reorganize. This was so, but if they had, their undivided surplus and profits, which amounted to $184,000,000, would have been divided, and the reorganized banks would have had only their capital. It was very desirable to retain this reserve of earnings. The national banking law had wisely provided that every bank before declaring a dividend 'should carry one-tenth part of its net profits of the preceding half year to its surplus fund, until the same should amount to 20 per cent. of its capital stock.' The banks having obeyed the law had the above sum after paying $85,845,169 of losses between 1876 and 1879."

NOTE.—Prior to 1883 a tax of one per cent. was collected on the deposits of national banks and also on that portion of their capital not invested in Government bonds. By an act passed in March, 1883, the banks were released from further payment of this tax. See Finance Report for 1883, page 512.

CHAPTER III.

National Bank Notes Not Money.

Having thus traced the general outlines of its structure, let us to proceed to the consideration of the more important objections to this banking system, which, in the light of reason and experience, seem to challenge our attention.

The first objection to this system of furnishing a circulating medium to be noted is that national bank notes lack one of the essential qualities of money. They are not a legal tender, and can not be used as such in the payment of debts. If one desires to make a lawful tender in discharge of a debt, he must tender lawful money of the United States—either gold, silver or greenbacks.

In other words, he must tender that which the law has declared to be a legal tender, or he cannot be heard to plead in any court that he has made a tender of payment of his debt. The fact that the Government stands ready to redeem and guarantees the redemption of national bank notes in lawful money of the United States, causes them to be very generally accepted in lieu of such lawful money, although they are not such in reality. Attorneys are often obliged to exchange national bank notes for lawful money of the United States in order to make a *legal* tender.

A national bank note is nothing more than the written, or rather printed, promise of the bank to pay money. If the reader have a bank note in his possession he can verify this statement in a moment by examining the note. The bank note differs in no important respect from the promissory note which the borrower gives the bank in exchange for it, except in this,—that the people of the United States guarantee the payment of the bank note, and thereby enable the banker to *draw* interest on his promissory note, while the borrower must *pay* interest on his!

In order that the reader may more clearly see that such is the essential character of these notes, the following extracts from the law are given verbatim:

"SEC. 20. And be it further enacted, that after any such association shall have caused its promise to pay such notes on demand to be signed by the president or vice-president and cashier thereof *in such manner as to make them obligatory promissory notes payable on demand at its place of business*, such association is hereby authorized to issue and circulate the same as money. And the same shall be received at par in all parts of the United States in payment of taxes, excises, public lands and all other dues to the United States, except for duties on imports, and also for all salaries and other debts and demands owing by the United States to individuals, corporations and associations within the United States, except interest on the public debt."

Section 25 provides that if notes of any bank be not paid on demand they may be protested by a notary public, etc.—just as other promissory notes are protested.

In a speech delivered in the Senate, February 3, 1873, Judge Allen G. Thurman gave his opinion upon this point in the following language:

"Now which of the two is the best currency,—the bank notes or the Government greenbacks? In the estimation of the people, the greenbacks are the best; in the estimation of the law, the greenbacks are the best, because it is provided that the bank note may be redeemed by the greenback. Why then should you compel the retiring of the greenbacks to make room for just an equal amount of national bank currency? Why should you retire all the greenbacks to make room for just an equivalent amount of the notes of private individuals, upon which they draw interest, although they are their debts? I know this goes very deep. It goes to the question whether or not a bank note circulation is an advisable thing. I know very well that a bank paper circulation is a means by which the annual products of the country are distributed in a most unequal manner. I know that it is a monopoly and a favoritism which enables one class of men to draw interest upon what they owe, while all other men have to pay interest

upon what they owe; and I never, therefore, have been much in favor of such a currency."

Soon after the national bank law went into effect, a committee of the New York clearing house said in a report:*

"If more currency is required for the legitimate business of the country, why should not the Government avail itself of the opportunity to issue a further amount of legal tender notes? They furnish a currency of uniform value in every part of the Union. Whereas the national bank currency is not lawful money. Why should the Government be willing to give the people an inferior currency when it commands a superior one?"

What advocate of the banks will furnish a sufficient answer to this question asked by the committee thirty years ago: "Why should the Government be willing to give the people an inferior currency when it commands a superior one?"

CHAPTER IV.

The National Banking System Costs Too Much.

The next objection to be noted to the national banking system is that it costs too much.

Someone has said that a thing may be a good thing and yet cost too much. It may, therefore, be worth while for those who believe that the national banking system is a good thing—in and of itself—to examine the evidence, and see whether, after all, this banking system is not costing the American people more than it is worth.

As bearing upon this, and other questions, the writer feels warranted in making the following somewhat extended quotation from a speech delivered by Gen. B. F. Butler in Congress in 1867 on the bill to change the law

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* Bolle's "Financial History," p. 220.

and make the 5-20 bonds payable in coin:*

"It is said the banks furnish the best currency this country ever saw, because it is the same in New Orleans, Boston, New York and Chicago. But what is the currency? It is the notes of the bank. What makes them equal all over this country? It is the endorsement of the United States. Therefore, as the United States is primarily responsible for all the circulation, *we* ought to supply the currency to the people, and receive the profit of doing it.

"Again it is said that this banking system is a better one than we ever had. For some purposes, so it is. And it is said further, that if we do not encourage it, we shall go back to the old State bank system. No, Mr. Chairman, never, never! The day of State banks has gone by. They were always, in my poor judgment, unconstitutional. But they got themselves fastened on the country, and there was never power enough until the necessities of the country required a new system of finance, to break off their hold. We have rid the country of them, and the Congress of the United States, ay, and the good judgment of the people, will never permit that system again to be imposed upon the country.

"What is the next proposition? Why it is said we must not interfere with the national banks, because they patriotically helped us during the war. Upon that I take issue with each and every advocate of the banks. On the contrary, they helped themselves, not us. It is said they loaned money to the Government. How did they do it? Let me state the way a national bank got itself into existence in New England during the war when gold was 200 and the 5-20 bonds were at par in currency, or nearly so. A company of men got together $300,000 in national bank bills and went to the Register of the Treasury with gold at 200 and bought United States bonds at par. They stepped into the office of the Comptroller of the Currency and asked to be established as a national bank, and received from him $270,000 in currency with interest upon pledging these bonds of the United States they had just bought with their $300,000 of the same kind of money. Now let us balance the books, and how does the account stand? Why the United States Government receives $30,000 in national bank bills more from the

* Butler's Book, p. 943.

banks than it gave them in bills; in other words, it borrowed of the bank $30,000 in currency, for which in fact it paid $18,000 a year in gold interest, equal to $36,000 in currency, for the use of this $30,000. But the thing did not stop there. The gentlemen were shrewd financiers. Their bank was a good one. They went to the Secretary of the Treasury and said: 'Let our bank be made a public depository.' Very well, it was a good bank; the managers were good men; there was no objection to the bank. It was made a public depository, and thereupon the commissaries, the quartermasters, the medical director and purveyor were all directed to deposit their public funds in this bank. Very soon the bank found that they had a line of steady deposits belonging to the Government of about a million dollars, and that the $270,000 they had received from the Comptroller of the currency would substantially carry on their daily business, and as the Government gives three days on all its drafts, if the bank were pressed, it was easy enough to go on the street if they had good security. They took the million of Government money deposited with them, and loaned it to the Government for the Government's own bonds, and received therefore $60,000 more interest in gold for the loan to the Government of its own money, which in currency was equal to $120,000. So that when we come finally to balance the books, the Government is paying $156,000 a year for the loan of $30,000! And this is the system which is to be fastened forever on the country as a means of furnishing a circulating medium? This only using round numbers for the purpose of illustration is an actual and not a feigned occurrence. * * * Sir, am I slandering these institutions? Are they not making money at a rate which is beyond all precedent? * * * Let us take the banks' own exhibit of themselves. I hold in my hand the abstract of reports of national banking associations for the 1st of October last. Let us see their condition. They have $419,000,000 capital stock paid in. They have been in operation on an average of less than four years. They have divided from 12 to 20 per cent., about 12 in New England, and from 15 to 20 where money is scarcer and the rate of interest rules higher. In addition to these dividends take their own statements: "Surplus fund, $66,000,000; undivided profits, $33,000,000;" showing that they have got after all these dividends nearly 25 per cent. of surplus of that capital stock laid away. What other business will allow a yearly divi-

dend of from 15 to 25 per cent. and a surplus accumulation in four years of 25 per cent. on the capital? And from whom and from where do all these profits come? They come ultimately from where all taxation, all profits, all productions must come, the laborers of the country, and nowhere else. And we are asked here to perpetuate a system which takes these immense profits from the labor of the country and puts them into the hands of capitalists, without a pretense of adequate benefit received by the people."

In the above speech General Butler shows what the national banking system was costing the Government and the people during, and immediately after, the war. Let us now see what the expense has been in recent years. In the New York *World* Almanac for 1894, a table compiled from the reports of the Comptroller of the currency is given, showing the profits of the national banks of the United States for a series of years. According to this table, in the year 1880 there were in existence 2,072 national banks, with a capital of $454,215,062, a *surplus fund* of $120,145,649, and total net earnings for the fiscal year of $45,186,034.

In like manner the number of banks in existence, the capital, the surplus, dividends and total net earnings of the banks are given for each year from and including 1881 to and including 1890—a period of ten years.

The total *net* earnings of the national banks for this period as certified in their own reports to the Comptroller, were $629,831,828.98. During this period the number of banks increased to 3,353; the capital to $625,089,645, and the surplus fund to $208,707,786. The above-named amount, $629,831,828.98, represents only the *net* earnings of these banks, or the profits remaining after the payment of all expenses and losses connected with the business.*

In order to ascertain therefore how much tribute these banks have drawn from the producing classes of the nation,

* See Comptroller's Report for 1888 p. 73.

we must add to the above sum whatever amount they have expended during this period in carrying on their banking business, and also the losses they have sustained.

Their expenses consist chiefly of the salaries paid to their presidents, cashiers, tellers, bookkeepers, clerks, etc.

Their losses are due largely to the embezzlements, defalcations, etc., of their officers.

A table given in the Report of the Comptroller for 1893, pages 264–273, shows that the current expenses of the banks for these ten years amounted to $421,575,895.41.

From the Finance Report for 1885, page 130, we find that the losses of the banks for the five years from 1880 to 1885 amounted to more than $60,000,000,—an average yearly loss of $12,000,000. This is much less than the losses from 1876 to 1879, when they amounted in three years to $85,845,169.*

Assuming, however, that the average yearly loss for these ten years from 1881 to 1890 was no greater than for the five years from 1880 to 1885,—namely, $12,000,000 per year, we have as the amount of losses for the period the sum of $120,000,000.

Adding together the losses of the banks, $120,000,000; the expenses of the banks, $421,575,895.41, and the net earnings of the banks, $629,831,828.98, we find that the gross or entire earnings of the banks during these ten years amounted to $1,171,407,724.39.

Let us try to get some conception of what these figures signify. The distance from New York to San Francisco is about 2,500 miles. At a cost of $20,000 per mile for construction, a railroad built from New York to San Fransisco would cost $50,000,000.

At this estimate of cost, the amount of tribute paid to national banks by the people in the decade from 1880 to 1890 would

* See Bolle's "Financial History," p. 308, 309.

have built twenty-three such railroads across the continent, and left a surplus of more than twenty million dollars!

Now what have the producers of the United States received in return for this enormous sum paid to the banks?

In the first place, they have received the use of a quantity of bank notes varying in amount at different times during this period from $332,398,922 in 1882 at the maximum to $124,958,736 in 1890 at the minimum.* The circulating medium was not increased to the full extent of the amount of notes issued by the banks, however, inasmuch as the issues of the banks drove five per cent. of their amount in legal tender notes out of circulation, and locked them up in the Treasury at Washington, as a redemption fund.

In the second place, as a further consideration, the people of the United States, have been allowed to deposit their savings in these institutions. These deposits however, having no other security than that of the banks themselves, have been frequently lost by the depositors. The Comptroller's Report for 1889 shows that depositors in national banks had at that date, lost deposits amounting to $14,844,988, an average yearly loss of more than half a million dollars!†

The following statements taken from the Report of the Comptroller for 1884 further indicate that the privilege of making deposits in these institutions, is of somewhat doubtful value:

"The most notable national bank failure of the year (1884) was that of the Marine National Bank of the City of New York which closed its doors about 11 A.M. on the 6th of May. The Bank Examiners of the City of New York immediately took possession of the bank, and found that it had been indebted to the clearing house that day in the sum of $55,500. The examiners also found the account of one firm overdrawn on the books of the bank to the amount of $766,570.14. Upon

* Comptroller's Report for 1893, pages 83, 84.

† Finance Report, 1889, page 395.

further examination it was found that this firm owed a total of about $2,430,500, being more than six times the capital of the bank. A portion of this indebtedness was in the name of other parties, clerks in their office, and relations of the firm. An examination of the minutes of the board of directors of the bank shows that on the 11th of April, 1884, twenty-five days before the failure of the bank, the committee of examiners appointed by the board of directors reported that they had examined the securities, counted the bills and specie, and examined the balances on the ledgers of the bank, and found the recorded statement of the 7th of April, 1884, to be correct."

Another statement made by the Comptroller in the same report is as follows: "The trouble at the Second National Bank grew out of a *defalcation*, amounting to $3,185,000, by the president of the bank."

Any number of instances similar to the above might be given, if space permitted. It is unnecessary, however, as the facts are matters of common notoriety.

The above described are the benefits which the national banks have conferred upon the people of the United States for a period of ten years in consideration for the sum of $1,171,407,724.39 duly received of said people of the United States to the satisfaction of said national banks!

Is more testimony needed to show that this system of supplying a circulating medium costs too much?

Would it not have been fortunate for the people if Congress had acted in accordance with the advice of Thaddeus Stevens, when he said:

"How would national bank notes be any better than the Government's own notes? The security of the Government is equal to that of the banks, and would give as much currency. *To the banks I can see its advantage.* They would have the whole benefit of the circulation without interest, and at the same time would draw interest on the Government bonds from the time they got the notes. Now, it is very plain that if the United States issued those notes direct, they (the United States) would have the benefit of the whole circulation."

CHAPTER V.

The National Banking System Fosters and Supports the Gambling Operations of Wall Street.

Another objection to the national banking system is that it encourages and promotes speculation. It furnishes the means whereby the brokers and operators of Wall Street gamble in grain and stocks, "bull" and "bear" and "corner" the markets, raise and lower the price of wheat, corn, sugar, securities, etc., and play havoc with the legitimate business of the country.

As the reader has observed, the law provides for the deposit by country banks of two-fifths of the reserve fund required to be kept by them to secure deposits, with the banks in the reserve cities. It also provides for the deposit by the banks in the reserve cities of one-half of the reserve fund required to be kept by them to secure deposits (including the deposits of country banks) with the banks in New York City; and that banks in New York City shall keep *on hand* 25 per cent. of *all* deposits made with them to secure such deposits. This necessarily makes New York the center, and the banks of New York the custodians of a very large portion of the entire bank reserves of the country.

This immense fund concentrated in the City of New York cannot be safely loaned by the New York banks upon time, however short. It can only be loaned upon "call." In other words, it can only be loaned to the speculators. With this money the speculator buys stock upon the "stock exchange," and pledges it with the bank as security for his loan, and relies upon his ability to sell again whenever called upon by the bank to pay the loan.

Bolles says in his "Financial History," page 349:

"The reserves which the banks outside of New York City were required to keep were sent in large amounts, though

irregularly, to New York. The banks in New York, having no legitimate way for employing the money at such times, and threatened with the loss of interest which they had promised to pay thereon, loaned it to stockbrokers. A bank would not have paid interest on "country balances," as they were called, if they could not be used, and the banks would not have dared to loan a considerable portion of them on time. *All loans on call were to speculators.* No merchant or manufacturer would borrow in that way. This striking fact, therefore, appears—while the banking law wisely provided for the maintenance of an adequate reserve, a very large portion of it was actually used by New York speculators. Though this fact was well known and caused much comment, no legislation was attempted."

The Comptroller in his Report for 1873, page 92, says:

"The present financial crisis may in a great degree be attributable to the intimate relations of the banks of the City of New York with the transactions of the Stock Board, more than one-fourth, and in many instances nearly one-third, of the bills receivable of the banks since the late civil war having consisted of demand loans to brokers and members of the Stock Board, which transactions have a tendency to impede and unsettle instead of facilitating the legitimate business interests of the whole country."

The following incident is related in Bolle's "Financial History," page 364:

"An eminent merchant of New York, and for several years a member of Congress, related the following story, which illustrated the discrimination made between the two classes of borrowers: 'A pet firm of brokers who went down in the crash of 1873 were found to be in debt nearly $15,000,000. That firm had reorganized only a month or two before with a capital of one or two hundred thousand dollars; but it was able to borrow of banks and others on stock held only for speculation about $14,000,000. At the same time a commercial firm of long standing, and having more than half a million of capital, applied to one of the largest national banks for a discount of $24,000 of business paper having less than thirty days to run, and was politelyput off with one-half the amount. The broker for gamblers got $14,000,000. The merchant for honest business got $12,000, or less than a thousand for a million."

This money furnished for speculative purposes is loaned by the banks at a much lower rate of interest than is charged merchants and others engaged in legitimate business enterprises. If the reader will consult the New York Finance Report of his daily newspaper, he will probably find money to loan on "call" quoted as "easy" at rates not more than one-third or one-fourth as high as those quoted for loans on "prime mercantile paper."

A table in the Comptroller's Report for 1893, pages 117, 118, classifies the loans made by the banks of the reserve cities on a certain day in each year from 1889 to 1894 inclusive. This table shows that 45 national banks in New York City had loans "on call" outstanding on Sept. 30, 1889, with stocks, bonds, etc., as collateral security, amounting to $109,579,495; on Oct. 2, 1890, $102,372,932; on Sept. 25, 1891, $113,787,196; on Sept. 30, 1892, $117,796,025, and on Oct. 3, 1893, $94,897,446.

The "call" loans of the Chicago banks on the above dates ranged from $12,000,000 to $18,000,000, in round numbers.

Thus an average of at least $100,000,000 is by this banking system constantly filtered into the banks of New York, and through them into the hands of the gamblers of Wall Street, to be used at merely nominal rates of interest, in "cornering" the markets, raising and depressing prices, and making wreck and ruin of honest enterprise.

NOTE.—In 1887 the banks of the cities of Chicago and St. Louis were added to those of New York as depositories for the reserves of the banks of the reserve cities, but are used as such to a very limited extent only, as appears from the reports of the Comptroller.

CHAPTER VI.

National Banks Inflate and Contract the Currency, and Produce Panics.

The next and perhaps the most serious objection to this banking system is that it permits of no stability in the volume of the circulating medium. Under its operation the supply of currency is continually subject to expansions and contractions.

By the advocates of the banks this *elasticity*, as it is called, is lauded as one of the most beneficent features of the system. On the contrary, however, its effect upon the business interests of the country is pernicious in the extreme.

As we have seen, the volume of bank notes issued during the period of ten years from 1880 to 1890 varied from $332,398,922 in 1882, to $124,958,736 in 1890.

And inasmuch as the banks are not required to issue any bank notes, it follows that the amount of bank notes which the banks may issue has a possible variation of from nothing up to ninety per cent. of the par value of the aggregate of United States bonds.

But aside from the power to increase or decrease in this way the sum total of the volume of the circulating medium, the banks have a still greater and more pernicious power in their ability to suddenly contract the volume of money in *actual circulation* by the withdrawal from circulation of their note issues. *All bank notes are loaned into circulation.* They get into circulation in no other way. These loans are made on the average for not longer than sixty days. By simply refusing to renew their loans, therefore, compelling creditors to pay, and locking up the money, the banks may, within a short period of time, withdraw from circulation an amount of currency equal to their entire note issues. In

this fact lies the explanation mainly of the constantly recurring panics to which this conntry, in common with others using the British system of bank issues as a substitute for money, has been subject.

This power of suddenly contracting the currency is inherent in all banks of issue, and has been repeatedly exercised by all such banks, evidence of which will be hereafter furnished.

In order to understand the effect of a contraction of the currency, it is necessary to have a clear conception of the nature and functions of money. A brief consideration, therefore, seems to be demanded of the question,

What Is Money?

Money is a Creation of Law.

There is no money other than *fiat* money. The Constitution of the United States provides that Congress shall have the power "to coin money and regulate the value thereof." In its decision of the legal tender case brought to test the question of the constitutionality of the greenback, the Supreme Court has said:* "If the power to declare what is money be not in Congress, it is annihilated," thus holding in the strongest possible language that Congress alone has the power to make or create money, and that it can not delegate this power to any other agency. In pursuance of this power Congress has by law declared that the dollar shall be the *unit* of *accounts*, the *unit* of *value;* that the dime shall be the one-tenth part of a dollar; that the cent shall be the one-hundredth part of a dollar, etc.

Money as money, has no intrinsic value. Its value is wholly representative, being, as the Supreme Court has said, a creation of law.

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* See 12th of Wallace Reports, page 545.

The value of a dollar depends in no respect upon the material upon which the stamp evidencing the fiat of the Government is fixed. Place a gold dollar upon the anvil, strike it with a sledge hammer and entirely efface the stamp of the Government which declares it to be a dollar, and you have left only a mass of metal which has no monetary power or function whatever, and which no man would take, or could be compelled to take, *as money*. The stroke of the hammer, which destroyed no particle of gold, and took from the metal no atom of "intrinsic" value, obliterated all evidence of the fiat of the Government which alone makes money.

A hundred copper cents is coined from metal worth in the market but a few cents, and yet a hundred copper cents is the full and exact equivalent in monetary value of a gold dollar. The function of money is to represent and exchange values, and not to contain them. Money is never *redeemed*, except when exchanged for something of *real* value. The possession of millions of gold dollars would in no way benefit a man unless he could exchange them for those things which minister to his wants.

Of what use would the possession of such millions be to a man shipwrecked upon a desert island?

The value to him of these or any other dollars arises from the fact that by operation of law he is enabled to exchange them for things of real value.

This fact is recognized even by those who for selfish purposes would mislead the people into the belief that paper money must be established upon a *gold basis* in order to be of any value. Thus Hugh McCulloch, an ardent advocate of the gold basis theory, said in one of his reports as Comptroller of the Currency:

"Money, whether it be in the form of the precious metals or of bank paper, is created by law. Gold and silver are

not money until coined and made such by the authority of the Government. It is not, like merchandise or other personal property, the result of man's industry, but a creation of the Government."*

Money, then, is a creation of law, the only functions of which are to represent and to effect the exchange of real values. If then the value of a dollar does not depend upon the material upon which the stamp of the Government is placed, upon what does it depend?

The value of a dollar consists in its purchasing and debt-paying power, which is determined by the number of dollars in circulation available for the purchase of property, and the payment of debts, as compared with the total amount of property (the purchase and sale of which is to be effected), and the aggregate of debts due.

To use an illustration, let us suppose that at a certain time, there being no debts to liquidate, the entire amount of property for sale consists of ten thousand bushels of wheat, and that the entire amount of money in circulation available for the purchase of this property is ten thousand dollars.

What would be the purchasing power or value of each dollar? Evidently one bushel of wheat. Thus the price of wheat, determined by the ratio between the number of dollars and the number of bushels would be one dollar per bushel.

Now let us suppose that instead of ten thousand dollars, there are only five thousand dollars available for the purchase of these commodities, the ten thousand bushels of wheat, what then is the purchasing power or value of each dollar? Evidently two bushels of wheat, or, in other words, wheat is worth but fifty cents per bushel.

Thus a contraction of the currency increases the purchas-

* See Finance Report for 1863, page 54.

ing power of each dollar, and decreases the price of all purchasable commodities. A contraction of the currency, therefore, adds to the burden of every debtor by compelling him to part with a greater quantity of real values in order to obtain the dollars with which alone he can discharge his debt. But aside from this, a contraction of the currency has the yet more serious effect of stopping business. Money being the only recognized medium for the exchange of commodities, is "the life blood of trade," and whenever its volume is reduced so that not enough is flowing in the channels of trade to effect the exchanges of the people, those exchanges must necessarily be curtailed to an extent corresponding to the diminution in the volume of the circulating medium.

The effect of a gradual contraction of the currency is a gradual prostration of business, while a sudden and severe contraction causes a correspondingly sudden derangement of business, the result of which is almost inevitably a *panic.*

The disastrous results following any general contraction of the currency, however produced, have been so often described that it seems scarcely necessary to marshal the authorities upon the question. A Congressional committee made a thorough investigation of the subject in *1877*, and in their report said:

"Money is the great instrument of association, the very fibre of social organism, the vitalizing force of industry, the protoplasm of civilization and as essential to its existence as oxygen is to animal life. Without money civilization could not have had a beginning, and with a diminishing supply it must languish and, unless relieved, finally perish. Falling prices and misery and destitution are inseparable companions. It is universally conceded that falling prices result from the contraction of the money volume."*

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* See Report U. S. Monetary Commission, 1877, vol. 1, page 50.

For a few years during and immediately after the war, the Government furnished directly to the people a volume of money sufficient to make them practically independent of bank issues. These years were the most prosperous in the history of the Republic.

John Sherman, the most pliant and effective tool the money power has ever had in any country or in any age, in letters written to his brother, General Sherman, during the war, bears witness to this fact. In one of these letters he says:

"The wonderful prosperity of all classes, especially of laborers, has a tendency to secure acquiescence in all measures demanded to carry on the war. We are only another example of a people growing rich in a great war. And this is not shown simply by inflated prices, but by increased productions, new manufacturing establishments, new railroads, houses, etc. Indeed, every branch of business is active and hopeful."*

Bolles says in his "Financial History," page 110, that "the individual indebtedness at the close of the war in 1865 was small. Everyone was comparatively free from debt." The testimony of Secretary McCulloch is recorded to the same effect.

The cause of this prosperity is thus tersely expressed in an article entitled "Wall Street in War Times," published in 1865 in Harper's Magazine:

"Paper money circulated like fertilizing dew throughout the land, generating enterprise, facilitating industry, developing internal trade."†

With the exception of these few years, the people of the United States have ever been dependent to a large extent for their monetary supply upon bank issues, as the following brief historical resume will show:

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* See Century Magazine for March, 1893.
† See Harper's Magazine, vol. 30, page 615.

The first offspring of the Bank of England to obtain a footing upon American soil was the Bank of North America. This bank was organized at Philadelphia in 1782. It received charters both from the United States and from the State of Pennsylvania. This bank continued in existence as a State bank under successive charters from the State of Pennsylvania until 1864, when it reorganized as a national bank, retaining its original name, with a capital of a million dollars, and a surplus of nearly the same amount. The annual dividends of this bank from 1792 to 1875, 84 years, averaged within a small fraction of eleven per cent. The amount of its outstanding State bank circulation in 1862 was $687,000.* Other States followed the example of Pennsylvania in establishing banks. Jefferson estimated the number of such banks in existence in 1815 at 100.†

The first Bank of the United States was granted a charter by Congress in 1791. Its incorporation was urged by Alexander Hamilton, then Secretary of the Treasury, while it was opposed by Thomas Jefferson, Secretary of State, and Edmund Randolph, Attorney General, in written opinions furnished at the request of the President.

The charter of this bank expired by limitation in 1811. An attempt was made to renew the charter, but it was unsuccessful.

In 1816 the second Bank of the United States was chartered with a capital stock of $35,000,000. Its charter expired in 1836. The story of the tremendous struggle of this bank for a renewal of its charter, and of its complete overthrow, forms one of the most interesting and instructive chapters in American history.

After the overthrow of this bank and until the establish-

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*See Comptroller's Report for 1876.
†Berkey's "Money Question," page 122.

ment of the national banking system in 1863, State banks held undisputed possession of the field. In 1840 their number had increased to 900.

In 1860 their bank note "promises to pay" in circulation amounted to $207,100,000, an amount nearly identical with that of the present national bank issues.

The above described were all of them specie basis banks of issue. They were supposed to issue about three dollars in bank notes for every dollar of specie in their vaults. In reality, however, the proportion of bank notes issued was generally much greater. Calhoun, in his works, vol. 3, pages 255, 256, speaking of the years 1834–35, says:

"There was then not more than one dollar in specie on an average in the banks, including the United States Bank and all for ten of bank notes in circulation, and not more than one in eleven compared with the liabilities of the banks."

During the entire period in which these note-issuing offsprings of the Bank of England have been in operation the country has been subjected to a constant succession of "suspensions of payments," or panics. These have occurred in greater or less degree in the years 1809, 1814, 1819, 1825, 1834, 1837, 1839, 1841, 1857, 1861, 1873, 1884 and 1893.

Inasmuch as it would be impossible, within the limits of this work to examine in detail into the causes of each of the above panics, the writer will limit his discussion of the proposition that

BANKS OF ISSUE PRODUCE PANICS

mainly to an examination of four of the most severe and disastrous of these crises, namely, the panics of 1837, 1857, 1873 and 1893. If it be demonstrated to the satisfaction of the reader that banks of issue have the power to produce panics, and that on certain occasions they have exercised this power, the question as to how often and to what extent

they have exercised such power on other occasions may be left for the reader to determine.

Before proceeding, however, to a discussion of the panic of 1837, it may be advisable to consider briefly some authorities which indicate that at a comparatively early period in our history it was recognized that banks possessed, to some extent at least, this power.

This sufficiently appears from the writings of Jefferson and others.

In 1814 Jefferson wrote as follows:

"Everything predicted by the enemies of the banks in the beginning is now coming to pass. It is cruel that such revolutions in private fortunes should be at the mercy of avaricious adventurers, who, instead of employing their capital, if any they have, in manufactures, commerce and other useful pursuits, make it an instrument to burthen all the interchanges of property with their swindling profits, profits which are the price of no useful industry of theirs."

At another time he wrote:

"Put down the banks and if this country could not be carried through the longest war against her most powerful enemy without ever knowing the want of a dollar, without dependence on the traitorous class of our citizens, without bearing hard on the resources of our people or loading the public with an indefinite burden of debt, I know nothing of my countrymen."

Again he said: "I sincerely believe that banking establishments are more dangerous than standing armies."

And again: "Bank paper must be suppressed and the circulation restored to the Nation, to which it belongs."

A fuller statement of his views in this regard is given in vol. 7, page 147, of his works, as follows:

"Certainly no nation ever before abandoned to the avarice and juggling of private individuals to regulate, according to their own interests, the quantum of circulating medium for the nation, to inflate by deluges of paper the nom-

inal prices of property, and then to buy that property at one shilling on the pound, first having withdrawn their floating medium, which might endanger a competition in the purchase. Yet this is what has been done, and will continue to be done, unless stayed by the protecting hand of our legislatures. The evil has been produced by the error of their sanction of this ruinous machinery of banks; and justice, wisdom, duty, all require that they interpose and arrest it before the schemes of plunder and spoliation desolate our country. If we suffer the moral of the present lesson to pass away without improvement, by the eternal suppression of bank paper, then, indeed, is the condition of our country desperate. *Interdict forever to both state and national government the power of establishing any paper bank, for without this interdiction we shall have the same ebbs and flows of medium, and the same revolutions of property to go through every twenty or thirty years.*"

A legislative committee of the State of New York in 1818 submitted a report from which the following extract is taken:

"Of all aristocracies, none more completely enslave a people than that of money; and, in the opinion of your committee, no system was ever better devised so perfectly to enslave a community as that of the present mode of conducting banking establishments. Like the siren of the fable, they entice to destroy. They hold the purse strings of society, and by monopolizing the circulating medium of the country, they form a precarious standard by which all property in the country—homes, lands, debts and credits, personal and real estate of all descriptions—are valued, thus rendering the whole community dependent upon them; proscribing every man who dares to oppose their practices. If he happens to be out of their reach, so as to require no favors from them, his friends are made the victims; so no one dares complain. The committee, on taking a general view of our State, and comparing those parts where banks have been for some time established, with those that have none, are astonished at the alarming disparity. They see, in the one case, the desolation they have made in societies that were before prosperous and happy; the ruin they have wrought on an immense number of the more wealthy farmers, and they and their families *suddenly hurled from*

wealth and independence into the abyss of ruin and despair. * * * Unless some judicious remedy is provided by legislative wisdom, we shall soon witness attempts to control all selections to office in our counties—nay, the elections to the very legislature. Senators and members of assembly will be indebted to the banks for their seat in this capitol; and thus the wise end of our civil institutions will be prostrated in the dust of corporations of their own raising."

In a speech against the rechartering of the second United States Bank, Thomas H. Benton, for thirty years an honored member of the United States Senate, said:*

"I object to the continuance of this bank because its tendencies are dangerous and pernicious to the Government and the people. It tends to aggravate the inequality of fortunes; to make the rich, richer, and the poor, poorer; to multiply nabobs and paupers, and to deepen and widen the gulf which separates Dives from Lazurus. It tends to make and break fortunes by the flux and reflux of paper. Profuse issues and sudden contractions perform this operation, which can be repeated in every cycle of so many years, at every periodical turn transferring millions from the actual possessors of property to the Neptunes who preside over the flux and reflux of paper. The last operation of this kind performed by the Bank of England about five years ago was described by Mr. Alexander Baring in the House of Commons in terms which are entitled to the knowledge and remembrance of the American people. After describing the profuse issues of 1823–24, Mr. Baring said: 'They, therefore, all at once gave a jerk to the horse on whose neck they had before suffered the reins to hang loose. They contracted their issues to a considerable extent. The change was at once felt throughout the country. A few days before that no one knew what to do with his money. Now, no one knew where to get it. The London bankers found it necessary to follow the same course toward their country correspondents, and these again toward their customers, and each individual toward his debtor. The consequence was obvious in the late panic.' This is what was done in England five years ago, and it is what may be done here in every five years to come if the

* See Benton's "Thirty Years in U. S. Senate," page 190.

bank charter is renewed. Sole dispenser of moneys, the game will be in its own hands, and the only answer to be given is that to which I have alluded—'The Sultan is too just and merciful to abuse his powers.'"

Other citations from equally reliable authorities might be given if space permitted. The opinion of President Jackson is sufficiently indicated by the extracts given from the speeches of Mr. Benton, who was the active and ardent champion of the President in the memorable contest between the forces of the Administration and the United States Bank.

CHAPTER VII.

The Panic of 1837.

Coming now to the examination of the evidence bearing upon the question as to whether banks of issue were in any degree responsible for the disastrous crisis of 1837, Senator Benton is again cited as a witness.

In 1838 in discussing the panic of the preceeding year, Mr. Benton used the following language:*

"Banks of circulation are banks of hazard and failure. It is an incident of their nature. The Bank of England, the great mother of banks of circulation, besides an actual stoppage of a quarter of a century, has had her crisis and convulsion in average periods of seven or eight years for the last half century—in 1783, '93, '97, 1814, '19, '25, '36—and has only been saved from repeated failure by the powerful support of the British government, and profuse supplies of exchequer bills. Her numerous progeny of private and joint stock banks of circulation have had the same convulsions: and not being supported by the government, have sunk hundreds at a time. All the banks of the United States are banks of circulation. They are all subject to the inherent dangers of that class of banks, and are, besides, subject to new dangers peculiar to themselves. From the quantity of their stock

*See Benton's thirty years in the U. S. Senate, vol. 2, p. 58.

held by foreigners, the quantity of other stocks in their hands, and the current foreign balance against the United States, our paper system has become an appendage of that of England. The power of a few banks over the whole presents a feature of danger in our system. It consolidates the banks of the whole Union into one mass, and subjects them to one fate, and that fate to be decided by a few without even knowledge of the rest. An unknown divan of bankers sends forth an edict which sweeps over the empire, crosses the lines of the states with the facility of a firman, prostrating all state institutions, breaking up all engagements, and leveling all laws before it. This is a kind of consolidation which the genius of Patrick Henry had not even conceived. But while this firman is potent and irresistable for prostration, it is impotent and powerless for resurrection. * * This is our system, if system it can be called, which has no feature of consistency, no principle of safety, and which is nothing but the floating appendage of a foreign and overpowering system."

Again in 1841 in a speech on the repeal of the sub-treasury act, Mr. Benton said:

"The architects of mischief, the political, gambling and rotten parts of the banks, headed by the Bank of the United States, and aided by a political party, set to work to make panic and distress, to make suspensions and revulsions, to destroy trade and business, to degrade and poison currency, to harrass the country until it would give them another national bank, and to charge all the mischief they created upon the Democratic administration. This has been their conduct; and having succeeded in the last presidential election, they now come forward to seize the spoils of victory in creating another national bank to devour the substance of the people, and to rule the government of their country. Sir: the suspension of 1837 on the part of the Bank of the United States, and its confederate banks and politicians, was a conspiracy and a revolt against the government. The present suspension is a continuation of the same revolt by the same parties. Sir, it is now nightfall. We are at the end of a long day when the sun is more than fourteen hours above the horizon, and when a suffocating heat oppresses and overpowers the Senate. My friends have moved adjournments. They have been refused. I have been compelled to speak now or never; and from this commencement, we may see the conclusion.

Discussion is to be stifled. Measures are to be driven through; and a mutilated congress, hastily assembled, imperfectly formed. and representing the census of 1830 not of 1840, is to manacle posterity with institutions as abhorrent to the constitution as they are dangerous to the liberties, the morals and the property of the people. A national bank is to be established, not even a simple and strong bank like that of Gen. Hamilton, but some monstrous compound, born of hell and chaos, more odious, dangerous and terrible than any simple bank could be. But enough for the present. The question now before us is the death of the sub-treasury. My present purpose is to vindicate the present treasury system —to free it from a false character, to show it to be what it is, nothing but a revival of two great acts of Sept. 1st and 2d, 1789, for the collection, safe keeping and disbursement of the public moneys under which this Government went into operation, and under which it operated safely and successfully until Gen. Hamilton overthrew it to substitute the bank and state system of Sir Robert Walpole which has been the curse of England, and toward which we are now hurrying again with headlong steps and blindfold eyes."*

Another witness whose testimony in relation to the panic of 1837, seems worth recording, is Martin VanBuren, eighth President of the United States. In his message to the first session of the 26th Congress Mr. VanBuren said:

"The suspension at New York in 1837 was everywhere with very few exceptions, followed as soon as it was known: that recently at Philadelphia immediately affected the banks of the South and West in a similar manner. This dependence of our whole banking system on the institutions in a few large cities, is not found in the laws of their organization, but in those of trade and exchange. The banks at that center to which currency flows, and where it is required in payment for merchandise, hold the power of controlling those in regions whence it comes, while the latter possess no means of restraining them so that the value of individual

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*See Benton's 30 years in U. S. Senate, vol. 2, p. 228.

NOTE.—At another time, speaking of the overthrow of the United States Bank, Mr. Benton prophesied the establishing of the present banking system in these words: "*We have driven the tigress to the jungles, but I fear that some day she will return, bringing her whelps with her.*"

property and the prosperity of trade through the whole interior of the country, are made to depend on the good or bad management of the banking institutions in the great seats of trade on the sea board. But this chain of dependence does not stop here. It reaches across the ocean and ends in London, the center of the credit system. The same laws of trade which give to the banks in our principal cities, power over the whole banking system of the United States, subject the former in their turn, to the money power of Great Britain. *It is not denied that the suspension of the New York banks in 1837 was partly produced by an application of that power; and it is now alleged in extenuation of the present condition of so large a proportion of our banks, that their embarrassments have arisen from the same cause. From this influence they cannot now entirely escape, for it has its origin in the credit currencies of the two countries:* it is strengthened by the current of trade and exchange which centers in London, and is rendered almost irresistible by the large debts contracted there by our merchants, our bankers, and our States. *It is thus that an introduction of a new bank into the most distant of our villages, places the business of that village within the influence of the money power of England.* It is thus that every new debt which we contract in that country, seriously affects our own currency, and extends over the pursuits of our citizens its powerful influence. *We can not escape this by making new banks, great or small, state or national. The same chains which bind those now existing to the center of this system of paper credit, must equally fetter every similar institution we create.* It is only by the extent to which this system has been pushed of late, that we have been made fully aware of its irresistable tendency to subject our own banks and currency to a vast controlling power in a foreign land, and it adds a new argument to those which illustrate their precarious situation. Engendered in the first place by their own mismanagement, and again by the conduct of every institution which connects them with the center of trade in our own country, they are yet subjected beyond all this, to the effect of whatever measures, policy, necessity or caprice may induce those who control the credits of England to resort to."

In discussing the panic of 1837, Von Holst in his Constitutional History, pages 176 et seq., says:

"The compromise tariff of 1833 had not yet come into force

when the United States Bank began to contract its giving of credits. The withdrawal of deposits served as a pretext for this. The most essential, if not the only reason, was evidently the hope of exerting a pressure on Congress in the matter of the renewal of the bank charter. The effect of this sudden change of its policies was severe enough. * * * At the beginning of 1830 the aggregate of the State debts is said to have amounted to $13,000,000, and in May 1836, Webster estimated the European capital invested in the securities of the States of the Union at $50,000,000. Two years later he thought that not less than $100,000,000 of European money had been loaned in the United States to States, corporations and individuals to be used in internal improvements. Bank notes had been issued in enormous quantities.. Speculation in Spanish and Portugese goods had made great demands in 1834 on the resources of the Bank of England. It had not yet regained its normal condition when speculation in the United States began in earnest. Up to the summer of 1836 bills of exchange to the amount of £2,600,000 had been drawn on the bank. Its reserve of gold was greatly reduced, *and on the 1st of July it began to contract its credits.* A rapid fall of prices followed, and great anxiety prevailed in all business. In November some English banks were greatly embarrassed, and the Bank of England came to their assistance only on condition that they would go into liquidation. This blow caused the ruin of three large houses which did business with the United States. This stone was set rolling, and it had scarcely begun to move when its rolling changed into a precipitous headlong fall. Bankruptcies came in avalanches. One manufactory after another stopped, and the number of those who could find neither bread nor work increased by thousands and tens of thousands."

CHAPTER VIII.

The Panic of 1857.

The panic of 1857 was one of the most disastrous which this country has ever experienced.

In 1858, the year following the inception of this panic, J. S. Gibbons published a book entitled "The Banks of New York." In Chapter XIX of this work, the author

gives a clear and graphic description of this panic, and of its cause. The following extracts are taken from this work:

"Up to August, 1857, our commercial affairs were generally prosperous. The local journals throughout the country represented business as in a wholesome condition. High prices were said to have enriched the farmer, the stock grower and the planter. Trade and mechanical industry flourished with corresponding success. * * * The banks began to contract their loans about the 8th of August. Securities immediately fell in price at the stock board. The failure of a heavy produce house was explained by a depression of that particular interest in the market. A report of dishonest jobbing and the misuse of funds in a leading railway company caused partial excitement without seriously disturbing confidence in mercantile credit. On the 24th of August the suspension of the Ohio Life and Trust Company was announced. It struck on the public mind like a cannon shot. An intense excitement was manifested in all financial circles. The holders of stock and commercial paper hurried to the broker and were eager to make what a week before they would have shunned as a ruinous sacrifice. The most substantial securities of the market fell rapidly in price at public sale. The regular discount of bills by the banks had mostly been suspended, and the street rates for money even on unquestionable securities rose to three, four, and five per cent. a month. On the ordinary securities of merchants, such as promissory notes and bills of exchange, money was not to be had at any rate. House after house of high commercial standing succumbed to the panic, and several heavy banking firms were added to the list of failures. The settlement of the New York City banks for the week ending Sept. 5th showed a further reduction in the loans of more than $4,000,000. From this period there was nothing wanting to aggravate the common distress for money. Commercial business was everywhere suspended. The avalanche of discredit swept down merchants, bankers, moneyed corporations and manufacturing companies without distinction. Old houses of accumulated capital which had withstood the violence of all former panics, were prostrated in a day; and when they believed themselves to be perfectly safe against misfortune. Such is the outline of the

most extraordinary, violent and destructive financial panic ever experienced in this country. What caused it? To what source or sources can it be traced? Where lies the responsibility for it? What lessons does it teach? What preventatives are indicated against the recurrence of similar disaster? These are questions which agitate the public mind and which ought to be answered, if possible, for our instruction and future guidance."

In discussing the cause of this panic, the same author proceeds as follows:

"It is remarkable that there was no interval of pressure between the plentiful money market which lasted until the 22d day of August, and the panic with which the month closed. There was no treaty between commerce and money as to the common interest. The panic was an explosion without notice or premonition. It was not as in former cases, the result of gradually increasing embarrassment after vain struggles to prevent it. This is demonstrated by the following figures:

WEEKLY FLUCTUATION OF LOANS, DEPOSITS, CIRCULATION AND SPECIE FROM AUG. 22 TO SEPT. 26, 1857.

	LOANS.	DEPOSITS.	CIRCULATION.	SPECIE.
August 29	dec. $3,550,663	dec. $3,380,670	dec. $22,951	dec. $855,802
Sept'r 5	dec. 4,367,554	dec. 3,600,190	inc. 2,132	inc. 986,588
Sept'r 12	dec. 2,235,792	inc. 73,512	dec. 350,876	inc. 1,953,893
Sept'r 19	dec. 1,208,152	inc. 517,844	dec. 248,515	inc. 1,374,329
Sept'r 26	dec. 989,988	dec. 933,102	dec. 235,493	dec. 229,091
	dec. $12,348,149	dec. $7,322,608	dec. $855,703	inc. $3,229,917

"The loans were reduced during this term $12,348,149. The increase of specie reserved from the liquidation makes the true relative decrease $15,578,066. The most violent action was between Sept. 5th and Sept. 19th, when the loans were reduced $3,443,944, *in the face of an increase of deposits of nearly six hundred thousand dollars.* The true relative change in the latter period is represented by a reduction of $6,172,772 in the loans, while the deposits actually increased

$591,356. *There can be no escape from these figures. They show beyond cavil that the banks, not the depositors, took the lead in forcing liquidation.* When dealers are denied the usual facilities by discount, they have no recourse for their payments but to their deposits, but they did not use these to the full extent of their loan reduction in any single week from the 22d of August to the 19th of September. * * * The history of the panic is clearly divisible into these two periods; the former when the banks took the initiative in forcing down their loans, and the latter in which the depositors seized it and brought on the closing acts of suspension. * * * The gradual expansion of bank credits through the several previous years not only on a fictitious home basis, but on country deposits which had been allured by competing rates of interest made sufficient ground for an extraordinary pressure when a reduction was to be effected; and thus the banks were doubly responsible for the pending issue. There is no evidence in the records of the clearing house, nor in the experience of past years, nor in any events which have transpired since the suspension, to prove that the panic was inevitable. The foregoing facts indicate that it was directly caused by the violent contraction of bank loans."

The following extract is taken from an article written by Edward Kellogg, which appeared in the New York *Daily Tribune* on Nov. 27, 1857:*

"SIR: A few months ago this country was enjoying a prosperity unsurpassed in its history. The crops more abundant than ever before, were sufficient to supply not only our own wants, but to admit of large exportations. Manufacturing establishments and railroads employed a large number of persons. The merchants were conducting their business with as much prudence as at any former period. Houses were being built in the cities and villages, and in the farming districts, and labor was in good demand.

"Now, affairs are in a very different condition. The business of the merchants is broken up; the manufacturers have suspended their operations; hundreds of thousands of laborers are thrown out of employment and are in danger

* See Kellogg's work on "Labor and Capital," page 338.

of starvation; the farmers cannot get their abundant crops to market, and if they could, they would be obliged to sell them at greatly reduced prices. Business stands still.

"This great change is rightly said to be owing to the difficulties in finances, to the crisis in the money market. All the money of the nation, bank notes included, amounts to about five hundred millions of dollars. Probably when the circulation of the banks has been the most expanded the whole currency has never reached six hundred millions. But the productions of labor for the last year are estimated at three billions, five hundred millions of dollars—about seven times as much as all the currency of the nation, and these productions, or a large portion of them, will change hands through the process of manufacture and otherwise, from three to eight or ten times before they reach the actual consumers. Now, this comparatively small sum of money must pay for every one of these exchanges, or for every debt contracted in making these exchanges. The same money must also pay all the debts contracted by borrowing money from banks, or upon bond and mortgage or otherwise. It must pay for all the lands that are sold by the Government and by individuals; for all the bonds issued by railroads, cities, states and the United States; for all the stocks and securities that are sold at private sale, at auction and by the various boards of brokers and for all the bills of exchange sold from one part of the country to another, as well as for all bills of exchange upon foreign nations. It is evident that this comparatively small sum of money must change hands a great number of times to effect the needful exchanges of this immense amount of property, and that any obstruction to its movement, or withdrawal of a portion of it from circulation must seriously embarrass the business of the whole country. The importance of this free circulation may perhaps be more fully appreciated when we state that all the money we possess—gold, silver and paper—would not suffice to pay the board of this nation for four months at $1 per week for each individual. The City of New York is the financial center of the country. If the banks in this city keep up their lines of discount so as to supply the business community with money, the banks in all other parts of the country will also discount and supply the people in their neighborhoods. Of course there must be at times balances greater or less against one part of the country in favor of another, but all

these will be easily adjusted, and business will go on prosperously.

"In the latter part of August last the Ohio Life and Trust Company, with a capital of two million dollars, suspended payment, with debts against the company to the amount of six or seven millions of dollars. This failure was the apparent occasion of distrust, and of contraction in bank issues to the amount of some eight millions of dollars in the course of two weeks; and to the 24th of October of about twenty-six million dollars. This contraction of discounts for the first two weeks only was doubtless a much greater loss to the business men of this city than the entire capital and liabilities of the Ohio Life and Trust Company.

"The news of this curtailment rushed with lightning speed to all parts of the country, and carried consternation into every city and town where a bank existed; and the banks in this city and throughout the country called upon each other to pay up their balances in specie. Many of the banks in this State were obliged not only to stop discounting, but had to send their State stocks to this city and sell them at from 15 to 30 per cent. loss to redeem their bank notes and take them out of circulation in order to save themselves from suspension. But this was not the worst of the evil. Merchants unable to get their notes discounted at bank, were driven into Wall Street, and compelled to borrow at exorbitant rates of interest to meet their payments, thus rapidly increasing their indebtedness and rendering it inevitable that in the end a large proportion of them should be made bankrupt. Many of them paid to usurers for the use of money one, two, three, four, five and six per cent. a month, and from these rates to a quarter, a half, and sometimes one per cent. or more a day, and were compelled to leave double, treble and quadruple securities to obtain the money at all. The banks, by curtailing their discounts so that money is not to be had to meet the mercantile engagements, remove the foundation upon which the contracts were based; and the merchants can no more stand up under such an event than a house can stand supported by the air, if the foundation be removed from under it. Money is the only thing recognized by our laws as a tender, and all the property of debtors becomes mere collateral security for the payment of money for their obliga-

tions. Hence, in a crisis like this, the wealth of the nation seems to be concentrated in the money. * * *

"When the Ohio Life and Trust Company suspended payment, had the banks in the City of New York discounted every note offered that was considered safe, in less than three weeks, and probably in one week, money would have been as plenty in the City of New York and throughout the country as it has been at any time during the past ten years; and all undoubted securities that were bearing seven per cent. interest would have commanded money at their par value. The business of the whole nation would doubtless have been as prosperous as it has been at any time during the last ten years. The agricultural productions of the South and West would have been rapidly sent to market, and would have sold at prices that would have remunerated the producer. Now, if they are freely sent into the market, they will be sold at ruinous sacrifices. * * *

"In the present crisis the same means must be used to relieve us from our financial difficulties that ought to have been used to prevent their occurrence. Let the banks in the City of New York discount every piece of paper offered which they consider safe and good. Let them discount paper that has four, five or six months to run, as well as short paper. They can do this as well now as they ever could at any previous time. Let them discount thus liberally and the business of the nation will revive. * * * Whether business shall revive now, our manufacturers resume their operations, our laborers be employed; or whether the present condition of the money market shall continue until the country is completely prostrate, and the wealth of the nation for the greater part accumulated in the hands of the usurers, is at the option of the banks in the City of New York."

CHAPTER IX.

The Panic of 1873.

The next severe panic and the first after the inauguration of the present system of bank issues, was that of 1873. While this panic was the result undoubtedly of a contraction of the currency, it was not wholly, and perhaps not mainly, due to a contraction of bank issues, although such contraction did occur and did materially hasten and promote the crash.

There can be no doubt that the withdrawal from circulation and destruction of the various issues of Treasury notes, which had been steadily going on for years, in pursuance of the contraction act of 1866, was one of the primal and chief causes of this panic. Neither can there be any doubt that the demonitization of silver in 1873 assisted materially in producing the distress which followed. Both these acts were passed by Congress at the dictation of the money power for the purpose of removing as far as possible Government issues either of coin or paper from circulation in order that their place might be supplied by bank issues.

The culminating acts, however, which precipitated the panic, were those of the banks in suddenly contracting their loans. In support of this statement, the following is quoted from Bolle's "Financial History," page 363:

"Opposition to the banks was now at its height. Many things had happened to inflame the feeling against them. The year before (1873) a financial storm had swept over the country, and the suffering therefrom was keen and universal. The event was largely attributed to the intimate relations existing between the banks of New York City and the members of the Stock Exchange, whereby the currency was suddenly contracted, or "locked up" in the language of the day, and brokers were preferred to merchants by the banks as borrowers of money. One of these "lock-ups" had been a matter of Congressional investigation in 1872. A direc-

tor of the Tenth National Bank of New York was a special partner in three firms with whom he left his money to be loaned. On a day specified, he directed them to call in his money, which they did. In the afternoon he went to his bank with the checks received from the three firms, amounting to $4,100,000. He requested the president to put them through the clearing house the next morning. This was done. The money was paid; but instead of putting it into the bank on deposit, he carried it away. The whole transaction was simply an arrangement by which it withdrew over $4,000,000 of legal tender notes from circulation for a director of the concern, whose avowed object in having it done, as he himself testified before the investigating committee, 'was to cause a stringency in the money market for the purpose of bringing about a decline in the price of stocks' of which he was 'short.' It affected not only the banks and the business community of the City of New York, but that city being the principal center of the monetary operations of the whole country, the stringency produced there in the money market extended to other cities, and affected more or less injuriously every branch of business requiring the use of money throughout the country. *These operations were repeated more than once, and were strongly condemned in every quarter outside of Wall Street.*"*

Another financial crisis occurred in 1884. Comptroller Cannon, although lauding the banking system, as must be expected of one occupying his position, is compelled, nevertheless, to make the following admissions in regard to the causes of the panics of 1873 and 1884:†

"The crisis of 1884 seems to have been even more unexpected to the country than that of September, 1873. Although many conservative people had predicted that the large increase in railroad and other securities and the general inflation which had been going on for a number of years would bring financial troubles and disasters to the country, it was nevertheless generally believed that the depreciation of values and the liquidation which had already

* See House Report No. 5, 42d Congress, 3d session. See also the extract from Comptroller's Report, Chapter V.

† See Comptroller's Report for 1884, page 34.

been going on for many months, and the further fact that the country was doing business on a gold basis, that the prices of all commodities were already very low, that an increased area of territory was under cultivation, and that the prospects were excellent for good crops, together with the larger distribution of wealth throughout the Union, would prevent a repetition of the panic of 1873. * * * The most profound students of political economy have for many years endeavored to explain the causes which have led to financial troubles similar to those of 1857, 1873 and 1884, and it is not to be expected that the Comptroller can obtain sufficient data to enter into a complete and satisfactory explanation of the causes of the financial disturbances of the present year. It is apparent, however, that a repetition of some of the same circumstances which brought about the monetary crisis of 1873 has been largely influential in causing the present crisis. Property of all kinds had been capitalized, as it is called, bonds and stocks had been issued for the purpose of building railroads, carrying on manufacturing and other business. Municipal and other bonds had been issued for public improvements. These bonds and stocks were put upon the market, and *commercial credit was extended, until a point was reached where capitalists of this and other countries questioned the intrinsic value of these securities, and the earning power of the properties on which they were based, and also doubted the solvency of many firms in commercial business. This lack of confidence induced them to decline to make further advances or investments. A decrease in the earnings of railroads, manufacturing and other enterprises followed, and the entire business of the country has consequently been restricted and deadened.*"

The above statements of Comptroller Cannon are worthy of careful study. Coming from such a source, they contain a remarkably full and complete admission of the charge that banks of issue were largely instrumental in producing the panics of 1873 and 1884.

"It is apparent," he says, "that a repetition of some of the same circumstances which brought about the panic of 1873 has been largely influential in causing the present panic." * * * "Bonds had been issued for the purpose

of"—borrowing money to be used in—"building railroads, carrying on manufacturing and other business." "Commercial credit"—in other words, *bank credits*—"had been extended until a point was reached where capitalists of this and other countries"—composed of bankers and their satellites—"questioned the intrinsic value of these securities and the earning power of the properties on which they were based, and also doubted the solvency of many firms in commercial business." "*This lack of confidence*"—*on the part of the capitalists*—"induced them to decline to make further advances"—*i. e.* loans—"or investments"—in other words, to lock up their money and take it entirely out of circulation. "*A decrease in the earnings of railroads, manufacturing and other enterprises followed, and the entire business of the country has consequently been restricted and deadened.*"

CHAPTER X.

The Panic of 1893.

In his report for 1893, Comptroller Eckels labors to show that the panic of 1893 was precipitated by the action of depositors in national banks in withdrawing their deposits.

A careful analysis of certain tables given in this report, however, proves most conclusively that Mr. Eckels' position is untenable.

An examination of tables found on pages 280 et seq. of the report (which show the condition of all national banks at the times of their periodical reports in each year for several years prior to, and including, 1893) reveals the fact that the aggregate amount of the deposits in national banks is constantly changing, rising and falling, and that these fluctuations are exceedingly irregular. Variations in the volume of deposits from one report to the next succeeding report of five, ten, twenty or even forty millions of dollars, are seen

to have been by no means uncommon. For instance between the 4th day of May and the 9th day of July, 1891, there was a decrease in the amount of deposits in the national banks of more than $40,000,000. This large decrease, however, excited no comment and occasioned no alarm. These deposits were withdrawn from the banks for use in business, and instead of contracting the currency, tended to make its circulation more active. The effect of such withdrawals is quite different from that produced by the withdrawal on the part of the banks of their loans. Banks use money in no other way than to loan it; and when they refuse to make such loans, the money remains locked in their vaults, and is unable to perform any of its functions. Now let us examine the facts disclosed by the Comptroller's report which show the connection of the banks with the panic of 1893. A table given on page 4 of the report shows that the aggregate amount of individual deposits in all national banks on the 6th day of March, 1893, was $1,751,439,371.14; and that on the 4th of May following, such deposits amounted to $1,749,930,-817.51, showing a decrease in deposits of about 1½ million dollars, a very slight decrease, and one which in view of the facts above stated, could have occasioned no alarm or even comment in financial circles. It is evident, therefore, that up to the 4th day of May, 1893, depositors generally throughout the country, were pursuing the "even tenor of their way," and that so far as they were concerned, no such thing as a panic had been thought of.

But let us see what the banks in the money centers of New York and Chicago were doing during this same period.

A table given on page 282 of the report shows that the individual deposits in the national banks of the City of New York on March 6, 1893, amounted to $284,898,089.33, and that on the 4th day of May, 1893, such deposits amounted to $286,-985,310.15, an *increase in deposits* during the two months of $2,087,220.82.

The same table shows that the loans and discounts of these same banks on March 6, 1893, amounted to $323,445,-104.33 (which is almost exactly the same amount as that of their loans outstanding at the time of the previous report on December 9, 1892) and that on the 4th day of May, 1893, their loans and discounts amounted to only $307,372,242.62, showing a *decrease in loans* of $16,072.861.71.

A similar table given on page 304 shows that the individual deposits in the national banks of the City of Chicago on the 6th day of March, 1893, amounted to $69,552,834.78, and that on May 4th, 1893, such deposits amounted to $75,781,073.65, an *increase in deposits* of $6,228,238.87. In spite of this large increase in their deposits however, their *loans* and *discounts* were reduced from $100,414,204.64 on March 6th, 1893, to $96,824,856.96 on May 4th, 1893, a *decrease* of $3,589,347.68.

The above figures show beyond the possibility of doubt that the national banks of New York and Chicago precipitated the panic of 1893.

By the increase in their deposits of over eight million dollars, and the contraction of their loans to the amount of nearly twenty million dollars, they took out of circulation between the 6th day of March and the 4th day of May, 1893, nearly thirty million dollars!

When we remember that New York and Chicago are the money centers of the country, and that a money stringency created in these centers must of necessity extend throughout the country, we can readily see that a general panic must inevitably have followed this action of the New York and Chicago banks. It is true that after the panic was thus started, the people became frightened and following the example of the banks, withdrew and hoarded their deposits, thereby adding fuel to the flames which the bankers had kindled. The result has been that some of the weaker banks have themselves gone down in the general shipwreck.

But what motive, the reader asks, could the banks have

had for such action? In the first place, a motive always exists in the fact that times of panic furnish to capitalists their most abundant harvests. In times of panic prices of all kinds of property are forced down to the lowest point. The capitalist is then enabled to invest his money in properties which cost him but a fraction of their real value. These properties he holds until "confidence" has been "restored," and prices have again reached a normal level, when they are unloaded upon an unsuspecting public. "These operations" said Benton, "may be repeated in every cycle of so many years, at every periodical turn of the wheel transferring millions from the actual possessors of property to the Neptunes who preside over the flux and reflux of paper."

But the banks had a still deeper purpose in view in precipitating the panic of 1893.

The Sherman law then in force provided for the purchase by the Government of 4,500,000 ounces of silver bullion per month at the market price, and the payment therefor in treasury notes issued for this purpose. This law, therefore, was adding to the circulating medium of the country a certain amount of currency each month, and this currency was being paid directly into circulation by the Government without reference to banks.

Under the operation of this law about $150,000,000 of such Treasury notes had been issued and were circulating in the channels of trade. From this circulation however the banks derived no profit. But if they could secure the repeal of this law, the banks would be in position to supply the place of the currency cut off by such repeal, with bank notes, *provided they could also secure the issue by the Government of bonds sufficient for the basis of such an increase of bank paper.*

The holders of our bonds in Europe, as well as in America, were also interested in the repeal of this law. For the law provided that the Secretary of the Treasury should coin so much of the bullion so purchased into standard silver dol-

lars, as might be necessary to provide for the redemption of the Treasury notes issued in purchase of the bullion. This was the only existing statute which in any way provided for the further coinage of silver. The money power of Europe and America had consented to the enactment of this law, as appears from the statements of John Sherman, only to prevent the passage of an act providing for the free coinage of silver as it existed prior to the demonitization act of 1873.

If this law were repealed, therefore, the increased demand for gold coin with which to supply the place before occupied by silver, would necessarily largely enhance its value. Thus the bonds of the United States *payable in coin*, in the hands of the bondholders, would be increased in value.

The banking and moneyed interests of the world combined, therefore, to secure the repeal of the purchasing clause—the vital portion—of this law.

In order to obtain the desired legislation a plan of action was adopted and put into execution.

A money stringency was created in the money centers of the country as above described. At the same time an onslaught was made upon the gold in the Treasury. Treasury notes issued in payment for silver bullion were presented at the Treasury and it was demanded that they be redeemed in gold. Under the provisions of the Sherman law, they were redeemable in either gold or silver, at the discretion of the Secretary of the Treasury. But in this instance, as always, the Secretary's discretion was exercised in favor of the capitalists and against the people. The excuse offered for redeeming these notes only in gold was that it was absolutely necessary to do so in order to maintain *parity* between the two metals. As if *parity* between the two would be promoted by dishonoring the one!

The gold thus drawn from the Treasury by Ickelheimer, Heidelbach & Co., Lazard, Freres & Co., and others, in pur-

suance of the commands of the Rothschilds and their allied money kings of the world, was shipped across the ocean.

The manner in which this was accomplished is indicated in the following extract, from the Report of Comptroller Trenholm for the year 1888, page 10:

"Another feature of the present foreign exchange business should not be overlooked in tracing the relations between that business and our monetary system, namely, the existence of banking houses on both sides of the Atlantic, and employing a great money capital. Formerly capital was seldom transferred from one country to another for long periods of time without either a change in its ownership, or a change of domicile on the part of its owner. Whereas now there are masses of capital that really belong to no particular country. * * * *This capital, supplemented by the almost unlimited credit of the bankers who direct its employment, substantially controls the course of international exchanges, but its movements are as noiseless as those of the electric current by which they are guided, and as secret as the cipher language in which they are alone recorded.*"

Having thus drained the Treasury of a large portion of its gold, the cry was set up by the bankers and capitalists that the outflow of gold and the money stringency were occasioned by the purchasing clause of the Sherman law, and that relief could only be obtained through its repeal. In this position the bankers received the invaluable aid of the Administration. President Cleveland, since the expiration of his first term, had been a zealous student in the Wall Street school of finance, and his known sympathy with banking and financial interests had secured for him in his contest for a second term the all-powerful support of the money power. Acting now in accordance with the wishes of this money power, he called an extra session of Congress which met on the 7th day of August, 1893. Elected upon a platform which declared that tariff reform was the supreme issue before the people, President Cleveland, nevertheless, said in his message to this extra session of Con-

gress that it was called for the purpose, and *only* for the purpose, of effecting the repeal of the purchase clause of the Sherman law. He echoed the cry of the bankers that this law was the cause of the outflow of gold and of the distress occasioned by the money famine. John Sherman, Tom Reed, Daniel Voorhees, Secretary Carlisle and the leaders generally of both the Republican and Democratic parties took the same position. The metropolitan papers, owned by the money power, threw their immense influence in favor of the repeal of the law. It was iterated and reiterated by all these minions of plutocracy that the Sherman law was the cause of the trouble, and that as soon as it should be repealed "confidence" would be "restored" and prosperity would immediately follow. No means were left unused which might in any way assist in forcing Congress to repeal the law. Patronage was given or withheld by the President with reference solely to this end. History will record the fact that never before had any President ventured to invade the legislative department of the Government to such an extent as did President Cleveland in his efforts to secure the repeal of this law. As an instance of the way in which the leading papers of the country, without distinction as to party, were used to manufacture public sentiment in favor of the repeal of the law, the following editorial is quoted from the New York *World's* issue of Oct. 3, 1393. Read it carefully.

"*If there is anybody who has sincerely believed that what we need for prosperity is more money, the present situation should undeceive him. There is a real gorge of money now in the banks. The surplus reserve was swelled during the last week to $28,481,800, the total reserve being $128,677,700. In the meanwhile business remains stagnant, and the banks are still more than reluctant to lend their surplus holdings upon time paper, the only lending that brings relief to merchants, manufacturers and other employers of men. So long as any shadow of uncertainty remains as to the repeal of the silver law, the holders of money prefer to keep it unprofitably*

idle rather than put it out in doubt as to the kind of dollars they are to receive in return for it."

This editorial admits the fact that the immediate cause of the distressed condition of affairs was the locking up in bank vaults of the circulating medium, but protests that the banks were compelled to do this through fear—all at once engendered—that the loans of their "promises to pay" might be repaid to them in lawful silver money!

What caused this sudden *fear* on the part of the banks? Had the people generally lost confidence in silver money? On the contrary, in spite of the warfare waged against it by the bankers, the people never for one moment hesitated to accept it.

Does the reader recall a single instance in which any individual—not a banker—objected to the taking of silver coin on the ground that it was not good money?

Does he remember an instance in which any man has been obliged to part with an unmutilated silver coin at less than par?

Is it not sufficiently apparent that this scarecrow was constructed by the bankers to serve a purpose of their own?

As further evidence of the fact that this panic was precipitated by the banks of New York and Chicago, and that it was done for the purpose above stated, the following quotation is made from an article in the New York *Sun* of April 27, 1893:

"President Cleveland's advisers have told him that the only way to induce the Western and Southwestern Congressmen and Senators to consent to a repeal of the Sherman law is to demonstrate to their constituents that they are losing every day this law remains in effect. *This work in that direction has been started by a number of bankers in the solid communities of the East. They are daily refusing credits to the South, Southwest and West. The Chicago banks it is said are carrying out the same line of policy.*"

The influence brought to bear upon Congress through all these agencies proved irresistable. By a decided majority of both the Democratic and the Republican members, all free coinage amendments to the bill were voted down, and Congress, after a bitter struggle in which the true representatives of the people contested every inch of ground, surrendered to the money power and repealed the law. It is now nearly a year since this was done, but the good times promised as the immediate result of such action have not yet made their appearance. On the contrary, the then unhappy condition of affairs has grown steadily worse.

As soon as they had thus succeeded in securing the repeal of the Sherman law, the bankers and capitalists began to demand that the Government should issue and sell bonds for gold with which to replenish the gold reserve which they had purposely depleted.

The President said this ought to be done. Secretary Carlisle said the same. John Sherman said bonds must be sold. And so Congress was again besieged and ordered to enact a law giving to the Secretary of the Treasury authority to issue bonds.

The protests of an outraged people, however, were beginning to make themselves heard even in the deafened ears of Congress, and the money power, fearing that it might not thus succeed in obtaining the coveted bonds, demanded of the Secretary of the Treasury that he should at once proceed to issue them without waiting for authority from Congress. This mandate the Secretary hastened to obey. In the face even of resolutions offered in both houses of Congress declaring such issue of bonds unauthorized, the Secretary proceeded to execute the order of the banks.

Fifty million dollars of interest-bearing bonds were sold for gold with which to build up the $100,000,000 gold reserve, which was itself established not by authority of law,

but solely by the *fiat* of John Sherman, as Secretary of the Treasury.

The following statement in regard to this bond issue, which appeared in the associated press reports on Feb. 9, 1894, shows how completely the Treasury department is under the control of Wall Street:

"Responding to the resolution which passed the Senate on the 2d inst. the Secretary of the Treasury to-day sent to the Senate a statement showing the names of bond subscribers offering 117.223, whose subscriptions were accepted, together with the amount subscribed for, and the amount allotted at the price. The statement also gives a list of those offering to purchase at a higher price, and a list of those not considered for various reasons. Among the allotments on the 117.223 bids are the following: Hanover National Bank of New York, $1,420,000; Kuhn, Loeb & Co., of New York, $1,420,050; United States Trust Co., of New York, $2,336,700; Farmers' Loan & Trust Co., of New York, $1,893,400; Union Trust Co., of New York, $2.366,700; New York Life Insurance Co., of New York, $2,840,050. The amount in the aggregate of this class is $40,704,700. *All the bids at figures over 117.223 amount in the aggregate to $69,295,300.*"

The above statement of the Secretary reveals the astonishing fact that these $50,000,000 of bonds were sold to favored banks and trust companies in the East at a premium of 17.223 per cent., *although offers for more than the entire issue were made at higher figures!*

The banks have again succeeded in reducing the gold reserve to a point even below that reached when the above bonds were issued.

Will another issue of bonds be effected in violation of the law and in defiance of the people?

CONCLUSION.

Thus silver has been cast aside to make way for bank paper. But the banking corporations will not rest content with this victory. Ever since the war they have been trying to secure the withdrawal from circulation of the greenback currency. The $346,000,000 of greenbacks (less such amounts as have been accidentally destroyed) constitute a thorn in the side of the banking interests which the bankers have sworn to remove at the earliest possible moment. The successive heads of the Treasury department have, almost without exception, felt it incumbent upon them to voice this desire of the bankers and to recommend the retirement of the greenback.

As an example of the logic used by these officials in thus championing the bankers' cause, the following is taken from the Report of Comptroller Trenholm for the year 1888, page 11:

"The $346,000,000 of greenbacks are the weak point in our currency system. The gold coin and certificates stand first, the national bank notes stand next, the silver coin and certificates third, and the greenbacks last in the order of assured value, and it would be a great benefit to the whole mass of the currency if this, its frailest element, could be eliminated from it. The present state of things seems favorable to the substitution of national bank notes for greenbacks, and to that end I venture to submit for the consideration of Congress, the following measures:

1. Funding in bonds the greenback debt of $346,000,000, or so much of it as may be presented within a limited period of time, say three years.

2. The bonds to be issued *only to national banks presenting greenbacks for that purpose*, to bear a low rate of interest, and *to mature only upon the failure of the bank, or its dissolution.*

3. The bonds so issued to be available *only as a deposit to secure national bank circulation, and to entitle the banks de-*

positing them to receive circulating notes to the amount of their face value.

In support of these measures, it may be said: * * *

4. As the greenbacks will not be extinguished, but held in a state of suspended monetary vitality, until the failure or liquidation of a bank requires their use in the redemption of its notes, they will constitute a reserve fund lying in the Treasury *ready for use at any moment of emergency in the redemption of any portion of the national bank currency that may become discredited.*"

What unanswerable arguments are here presented by Mr. Trenholm in favor of the retirement of the greenbacks! They are, he says, the frailest element in our monetary system, whereas the bank note stands next to gold in the order of assured value. Still, he would not destroy them altogether. He would simply retire them from circulation by funding them in interest-bearing, never-maturing bonds (upon which he would permit banks to issue an equal amount of bank notes), and keep them in the Treasury *until they were needed to redeem bank notes which had become discredited.*

Let no one presume to question the logic of this brilliant advocate of the banks!

If the reader finds it difficult to understand how it is that the only use to which a *frail* currency can profitably be put, is *to redeem a currency which stands higher in the order of assured value*, let him ascribe the fault to his own want of understanding, rather than to any weakness in the argument of the Comptroller!

The bankers are forever harping on the need of an *elastic* currency, and referring to such need as a reason for the substitution of bank notes for greenbacks. In his Report for 1887 the Comptroller says:

"From the standpoint of the commercial and other industries, *elasticity* is more important than *quantity* in the cur-

rency. Their interests are better subserved by a currency so elastic in volume as to respond immediately to variations in the demand for it than by a great volume of money rigid in amount."

The following authorities are added to those already quoted in favor of the *people's side* of this question.

In the course of a speech delivered in the Senate, Feb. 3, 1873, Oliver P. Morton said:

"The Senator from Connecticut (Mr. Buckingham) said, and I think I have heard the Senator from Ohio (Mr. Sherman) talk about an *elastic* currency, a *flexible* currency. I have never believed much in such a currency. I have always regarded it as a financial fallacy. I think it is one of the worst things that can happen. I believe the strongest element in the financial stability of this country for the last few years has been the fact that our country has had a fixed amount of currency, an amount that everybody knows. * * * It does not depend now upon the will of private persons. But (under the proposed law) speculators in New York, bankers and brokers might for the very purpose of making a financial panic, run in $50,000,000 of greenbacks and get five per cent. bonds, and be prepared to take advantage of the contraction and of the necessary depression following it."

An address prepared by Congressman Amassa Walker, of Massachusetts, at the time the national bank bill was under discussion, but not delivered, contains the following statements:*

"Could I have my own wishes, I should, as I have before insisted, instead of creating a rival system, lay a tax of three per cent. semi-annually on all present bank circulation, drive it entirely out of existence, and fill its place with legal tender notes of the Government. * * * I would thus establish one kind of currency instead of three, and that the cheapest and best we could possibly have. This arrangement, together with the legal provision that banks might issue specie certificates for specie actually in their possession, would furnish them and the public with all the

* See Bolle's "Financial History," p. 216.

currency they could possibly need, *and one that would never be exposed to any fluctuation except that which naturally arises from the operation of the laws of trade, and which could never be violent or really injurious to any community or State.*"

Having once obtained a sufficient supply of money to fill the channels of trade, there should be no change in its volume except such increase as might be required by an increase of population and business to keep those channels full.

This resume has already been extended beyond the limits which it was originally designed to occupy. Certain objections to this banking system have, nevertheless, been only incidentally referred to, while other minor ones have received no consideration. It is hoped, however, that what has been recorded, may assist in some degree in calling attention to the inherent evils of the system.

"Bank paper must be suppressed and the circulation restored to the Nation, to which it belongs."

Otherwise, we shall never approach to that ideal of government which Jefferson described when he said:

"Let us found a government where there shall be no extremely rich men and no abjectly poor ones. Let us found a government upon the intelligence of the people and the equitable distribution of property. Let us make laws where there shall be no governmental partnership with favored classes. Let us protect all in life, liberty and property, and then say to every American citizen, with the gifts that God has given you, your brain and brawn and energy, work out your own fortune under a just government and an equal jurisprudence."

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